# FRANCHISE DISCLOSURE DOCUMENT

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Department of
Business Oversight

**1 800 WATER DAMAGE International, LLC**
**A Delaware Limited Liability Company**
**731 Fairfield Court**
**Ann Arbor, Michigan 48108**
**1-734-864-9799**
**1800waterdamage.com**

You will operate a business (the "WATER DAMAGE Business") offering water damage restoration services, carpet cleaning services, mold remediation, odor removal, fire, smoke and related cleaning and remediation products and services utilizing the 1-800 WATER DAMAGE business system. We offer two different franchise models (each, a "Franchise Model"), both are disclosed in the chart below:

| **Franchise Model** | **Model Description** | **Total Investment and Amounts Paid to Franchisor or its Affiliates** |
|---|---|---|
| Franchise Managing Operator Model | The Franchise Managing Operator Model offers the opportunity to manage and operate a Business owned by a subsidiary of 1 800 WATER DAMAGE North America, LLC (the "Operating Entity"). The Operating Entity incurs all startup and ongoing costs associated with the Business. | The total investment necessary to begin operation of a Managing Operator WATER DAMAGE business in a single territory is $79,000.00 to $121,500. This includes $79,000.00 to $112,750 that must be paid to us or our affiliates. |
| Traditional Franchise Model | You will own and operate the Business and be directly responsible for all costs and expenses associated with the businesses. | The total investment necessary to begin operation of a Traditional WATER DAMAGE franchise business in a single territory ranges from $202,812 to 282,562. This includes $159,000 to $192,750 that must be paid to us or our affiliates. |

This disclosure document summarizes certain provisions of the franchise operator agreement and 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



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14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Janet Hughes, Legal Administrator, at 731 Fairfield Court, Ann Arbor, MI 48108, 734-864-9799.

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 the 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.

Issuance date: April 18, 2016, as amended December 1, 2016



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## STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit C for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE OPERATOR AGREEMENT AND/OR THE FRANCHISE AGREEMENT REQUIRE YOU TO FIRST RESOLVE ALL DISPUTES WITH US, AT OUR OPTION, BY MEDIATION, AND THEN LITIGATION IN ANN ARBOR, MICHIGAN. OUT OF STATE MEDIATION AND/OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO MEDIATE AND/OR LITIGATE WITH US IN MICHIGAN THAN IN YOUR OWN STATE.

2. THE FRANCHISE OPERATOR AGREEMENT AND THE FRANCHISE AGREEMENT STATES THAT MICHIGAN LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

3. THE FRANCHISE OPERATOR AGREEMENT AND THE TRADITIONAL FRANCHISE AGREEMENT REQUIRES YOU TO ATTAIN, THEN MAINTAIN, CERTAIN MINIMUM ANNUAL GROSS SALES. THE MINIMUM ANNUAL GROSS SALES IN THE SECOND YEAR OF OPERATION IS $225,000, IN THE THIRD YEAR OF OPERATION THE MINIMUM IS $475,000, IN THE FOURTH YEAR OF OPERATIONS THE MINIMUM IS $725,000 AND IN THE FIFTH YEAR AND BEYOND THE MINIMUM ANNUAL GROSS SALES IS $975,000. IF YOU FAIL TO DO SO, WE MAY TERMINATE THE FRANCHISE OPERATOR AGREEMENT OR TRADITIONAL FRANCHISE AGREEMENT, AND/OR ESTABLISH ANOTHER FRANCHISEE, OPERATOR OR COMPANY OWNED BUSINESS IN THE TERRITORY.

4. IF YOU ENTER INTO THE FRANCHISE OPERATOR AGREEMENT, THE BUSINESS MUST MAKE MINIMUM MANAGEMENT FEE PAYMENTS, REGARDLESS OF ITS SALES LEVELS. THE MINIMUM MONTHLY MANAGEMENT FEE DURING THE SECOND YEAR OF OPERATION IS $1,875, IN THE THIRD YEAR OF OPERATION THE MINIMUM MONTHLY MANAGEMENT FEE IS $4,750, IN THE FOURTH YEAR OF OPERATION THE MINIMUM MONTHLY MANAGEMENT FEE IS $7,250 AND THE FIFTH YEAR AND BEYOND THE MINIMUM MONTHLY MANAGEMENT FEE IS $9,750. THE BUSINESS'S INABILITY TO MAKE THE PAYMENTS MAY RESULT IN TERMINATION OF YOUR FRANCHISE AND LOSS OF YOUR INVESTMENT.

5. IF YOU ENTER INTO THE TRADITIONAL FRANCHISE AGREEMENT, THE BUSINESS MUST MAKE MINIMUM MANAGEMENT FEE PAYMENTS, REGARDLESS OF ITS SALES LEVELS. THE MINIMUM MONTHLY MANAGEMENT FEE DURING THE SECOND YEAR OF OPERATION IS $2,063, IN THE THIRD YEAR OF OPERATION THE MINIMUM MONTHLY MANAGEMENT FEE IS $4,354, IN THE



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FOURTH YEAR OF OPERATION THE MINIMUM MONTHLY MANAGEMENT FEE IS $6,646 AND THE FIFTH YEAR AND BEYOND THE MINIMUM MONTHLY MANAGEMENT FEE IS $8,938. THE BUSINESS'S INABILITY TO MAKE THE PAYMENTS MAY RESULT IN TERMINATION OF YOUR FRANCHISE AND LOSS OF YOUR INVESTMENT.

6. IF YOU ENTER INTO THE MANAGING OPERATOR MODEL, YOUR SPOUSE AND IMMEDIATE FAMILY MEMBERS MUST SIGN A CONFIDENTIALITY AND NON-COMPETITION AGREEMENT.

7. IF YOU ENTER INTO THE TRADITIONAL FRANCHISE MODEL, YOUR SPOUSE MUST SIGN A PERSONAL GUARANTY MAKING YOUR SPOUSE INDIVIDUALLY LIABLE FOR YOUR FINANCIAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT. THE GUARANTY WILL PLACE YOUR SPOUSE'S MARITAL AND PERSONAL ASSETS AT RISK IS YOUR FRANCHISE FAILS.

8. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

**We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.**

***[Effective Dates for this Franchise Disclosure Document are Listed on the following page]***



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## STATE ISSUANCE/EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This Franchise Disclosure Document is registered, on file, or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California: May 19, 2016, as amended: pending

In all other states, the effective date of this Franchise Disclosure Document is the Issue Date of April 18, 2016, as amended December 1, 2016



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*ADDITIONAL DISCLOSURES FOR THE STATE OF MICHIGAN.*

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

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

(a) A prohibition on the right of a franchisee to join an association of franchisees.

(b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than five years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least six months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards;



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

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

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

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

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

**THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENFORCEMENT BY THE ATTORNEY GENERAL.**

If the franchisor's most recent financial statements are unaudited and show a net worth of less than $100,000.00, the franchisee may request the franchisor to arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations, if any, of the franchisor to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

Any questions regarding this notice should be directed to:

State of Michigan
Consumer Protection Division
Attn: Franchise
670 G. Mennen Williams Building
525 West Ottawa
Lansing, Michigan 48933
(517) 373-7117
miag@michigan.gov



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**Exhibits**

A1 – Franchise Operator Agreement
A2 – Franchise Agreement
B – Financial Statements
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E – State Addenda to the Disclosure Document
F – List of Franchisees
G – List of Former Franchisees
H – Compliance Certification



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## ITEM 1: THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

*1.1 The Franchisor, its Parents, Predecessor and Certain Affiliates.*

The franchisor is 1 800 WATER DAMAGE International, LLC. Our principal business address is 731 Fairfield Court, Ann Arbor, MI 48108. To simplify the language in this Disclosure Document, "we," "us," "our," "Company", and "WATER DAMAGE" means 1 800 WATER DAMAGE International, LLC. "You" or "your" means the person to whom a franchise is awarded. If you enter into the Franchise Managing Operator Model, you must sign the Franchise Operator Agreement with us in your individual capacity. The sole exception to this is in the event you determine to use your retirement funds to pay for the initial franchise fee through a rollover as business startups ("ROBS"). If you effectuate a ROBS, your C Corporation (the "C Corp") must sign the Franchise Operator Agreement and you must personally guarantee C Corp's performance under the Franchise Operator Agreement.

If you enter into a Traditional Franchise Agreement and the Franchise is awarded to a legal or business entity, "you" or "your" means the legal or business entity and the owners of the legal or business entity. Throughout this document the Franchise Operator Agreement and the Traditional Franchise Agreement are referred to as the "Agreement".

We were formed on April 16, 2015, as a Delaware Limited Liability Company, and we do business under the name "1-800 WATER DAMAGE." We do not do business under any other name and have not offered franchises in any other line of business. We have never operated a business offered under this disclosure document. We have no other business activities except franchising. Our agent authorized to receive service of process is listed in Exhibit D of this Disclosure Document.

Our parent is BELFOR Franchise Group, LLC (f/k/a "DUCTZ Holdings, LLC") ("BELFOR"), a Michigan Limited Liability Company formed on July 3, 2007 and a wholly owned subsidiary of BELFOR (USA) Group, Inc. ("BELFOR USA"), a Colorado corporation formed on June 9, 1995, and located at 185 Oakland Ave, Suite 300, Birmingham, Michigan 48009. BELFOR USA offers property and electronic restoration, machinery refurbishment, data and document restoration, mold remediation, emergency and rapid response.

Our predecessor is LLB Group, Inc. (f/k/a The Cure Service Group, Inc. ("LLB Group")), a Washington corporation with a principal business address of 1167 Mercer Street, Seattle, Washington 98109. LLB Group offered and sold 1-800 WATER DAMAGE franchises beginning in 2002 through 2013. On May 6, 2015, we purchased certain assets of LLB Group, Inc., including the 1-800 WATER DAMAGE marks, business system and existing franchise agreements. As a result, we are the new franchisor of 1-800 WATER DAMAGE franchises and began offering franchises on October 15, 2015. The existing 1-800 WATER DAMAGE franchisees operate under the same marks and offer the same services that you will offer as a 1-



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800 WATER DAMAGE Managing Operator or Franchisee. The existing franchises' businesses operate under the Traditional Franchise Model. As of December 31, 2015 there were a total of 31 existing 1-800 WATER DAMAGE units operating in the United States.

Our affiliate 1 800 WATER DAMAGE North America, LLC ("WDNA") is a Delaware limited liability company formed on September 28, 2015. As discussed below, the 1-800 WATER DAMAGE Business you will operate will be owned by a wholly owned subsidiary of WDNA.

Our affiliate A Cure Disaster Services, LLC ("A Cure") a Delaware Limited Liability Company, formed on April 16, 2015, currently operates the company owned 1-800 WATER DAMAGE businesses. A Cure maintains its principal address at 12600 Interurban Ave., S. Suite 130, Tukwila, WA 98168. Its business includes offering water damage restoration services, carpet cleaning services, mold remediation, odor removal and related cleaning services. A Cure does not offer franchises in any line of business at this time, although they reserve the right to do so in the future. As of December 31, 2015 A Cure owns and operates 2 units in the United States.

We have three affiliates that offer franchises in other lines of business. Our affiliate HOODZ International, LLC ("HOODZ") is a Delaware Limited Liability Company formed on October 3, 2008 with a principal business address at 731 Fairfield Court, Ann Arbor, Michigan 48108. HOODZ is the franchisor of HOODZ franchised businesses which offer commercial kitchen exhaust system cleaning, inspection, maintenance and restoration services and has offered franchises since January 1, 2009. As of December 21, 2015, HOODZ had 125 franchises operating in the United States.

Our affiliate HOODZ Canada, Inc. ("HCI") is a Canadian corporation organized on October 4, 2011, with a principal business address at 731 Fairfield Court, Ann Arbor, Michigan 48108. HCI has served as the franchisor of HOODZ business in Canada since 2011 and had two franchisees as of December 31, 2015.

Our affiliate DUCTZ International, LLC ("DUCTZ") is a Michigan Limited Liability Company formed on March 30, 2004 with a principal business address at 731 Fairfield Court, Ann Arbor, Michigan 48108. DUCTZ is the franchisor of DUCTZ businesses offering commercial and residential air duct cleaning services and has offered franchises since 2004. As of December 21, 2015, DUCTZ had 91 franchises operating in the United States.

Additionally, the following affiliates may provide products and services to the WATER DAMAGE System. Our affiliate BHI Distribution, LLC ("BHI") is a Delaware Limited Liability Company formed on February 19, 2008 with a principal business address at 731 Fairfield Court, Ann Arbor, Michigan 48108. BHI Distribution is responsible for procurement and distribution of vehicles, equipment and supplies for BELFOR USA and its affiliates and subsidiaries, and is currently a supplier to the WATER DAMAGE System. BHI does not currently operate any nor has it offered franchises in any line of business, although it reserves the right to do so in the future. As of December 31, 2014 they own and operate one unit in the United States.



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Our affiliate Greenblendz, Inc. ("Greenblendz") is a Michigan corporation formed on December 11, 2008 with a principal business address at 30600 Telegraph Road, Suite 2345, Bingham Farms, Michigan 48025. Greenblendz may supply certain chemicals to the WATER DAMAGE System.

Our affiliate CS Holdings, LLC d/b/a Colman Wolf ("Colman Wolf") is a Michigan corporation formed on June 29, 2009 with a principal business address at 185 Oakland Ave, Birmingham, Michigan 48009. Coleman Wolf may supply certain sanitary and paper products to the WATER DAMAGE System.

Other than as disclosed above, no parents, predecessors, or affiliates are required to be disclosed in this Item.

## *1.2 The WATER DAMAGE Models*

We presently offer and grant the right to operate two different Franchise Models and each Franchise Model will (a) offer water damage restoration services, carpet cleaning services, mold remediation, odor removal, fire, smoke and related restoration and cleaning services, which services list may be amended to include other services and products from time-to-time in the operations manual or otherwise (collectively, the "Remediation Services") and ancillary products under the 1-800 WATER DAMAGE mark or other marks we may specify (the "Marks"), and (b) operate utilizing our methods and operating systems as defined in our proprietary Operations Manuals (the "Operations Manuals"). Businesses may offer minor reconstruction services in conjunction with the Remediation Services such as minor drywall removal and installation, hardwood floor repair, tile floor repair, painting, and carpet repair and installation (the "Minor Reconstruction Services"), but may not provide structural repair work, interior finishing, and electrical, mechanical and plumbing and heating services either through the Business or any other entity ("Reconstruction Services"). In the event that a customer of the Business requires Reconstruction Services, you must refer the customer to us, BELFOR or BELFOR USA (each a "Required Referral").

Each WATER DAMAGE Business is operated in accordance with our distinctive and proprietary business formats, systems, methods, procedures, techniques, designs, standards and specifications, specific marketing and sales procedures, cleaning, and restoration processes and systems, all of which we (or our affiliates) may improve, further develop or otherwise modify from time to time (collectively referred to as the "WATER DAMAGE System" or "System"). You will identify that you are a WATER DAMAGE Business by exhibiting the Marks on your marketing materials, vehicles, employee uniforms, stationery, business cards, invoices, and other business supplies and materials.

Each WATER DAMAGE Business will operate within a specifically defined non-exclusive territory (the "Territory") as defined in the Franchise Operator Agreement or Franchise Agreement. Under certain conditions, other franchisee(s), operators, "Company Business(es)" (which are operated by us or WDNA), and/or our affiliates may also solicit and perform Remediation Services and Minor Reconstruction Services (collectively, the "Services").



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a. Managing Operator Model. We grant qualified individuals (each a "Managing Operator" or "Franchisee") the right to manage and operate a Business owned by a wholly owned subsidiary of WDNA (the "Managing Operator Model"). Under the Managing Operator Model, our relationship with you is governed by the terms of the Franchise Operator Agreement (the "Franchise Operator Agreement"), attached as Exhibit A-1 to this Disclosure Document, under which you agree to operate the WATER DAMAGE Business in strict accordance with the WATER DAMAGE System.

Upon signing the Franchise Operator Agreement, WDNA will form a wholly owned entity (the "Operating Entity") which will own the WATER DAMAGE Business. The Operating Entity will lease office space for the Business located within the Territory (the "Office"). The Office will comprise approximately 1,200 – 1,500 sq. ft. of space and will include commercial office space with a garage to store the service van. You are responsible for identifying potential locations within the Territory which meet our site selection criteria as stated in the Manual. We shall have the right to select the location of the Office. In the event that you purchase multiple territories, we may, in our sole discretion, allow you to operate from a single Office, provided that the Office is centrally located to both territories. In the event that you purchase four territories, an additional Office will be required.

The Operating Entity will provide all furnishings, the van, all equipment, computer(s), inventory and all supplies necessary to establish and operate the Business. The initial start-up costs will be deducted as an Operating Expense (as defined below).

As a Franchise Managing Operator, you will be responsible for hiring, training and firing the employees of the Operating Entity, marketing and soliciting business, scheduling and performing Services, maintaining the Business' equipment and Office, and any other responsibilities required to operate the Business. The Business' technicians will be employees of the Operating Entity.

You will be considered an employee of the Operating Entity and during the term of the Franchise Operator Agreement, you shall be entitled to participate in employee benefit plans generally provided by us to our full-time employees from time to time, but only to the extent provided in such employee benefit plans and for so long as we provide or offer such benefit plans. We reserve the right to modify, amend or terminate such benefit plans at any time without prior notice.

If you use a ROBS to fund the Initial Franchise Fee, the C Corp will sign both the Franchise Operator Agreement and the 401k Addendum (the "401k Addendum") attached to the Franchise Operator Agreement as Exhibit "B" under which you will agree to personally guaranty the C Corp's performance under the Franchise Operator Agreement. You will deemed an employee of the C Corp and not the Operating Entity and will serve as the C Corp's key manager and devote your best efforts to the operation of the Business.

Additionally, by utilizing a ROBS plan you will not be able to participate in the Operating entity's fringe benefit plans (such as medical, 401k plan etc.), however, the Operating Entity will pay C Corp a sum up to the amount it pays its full time employees under its then



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current fringe benefit plans provided that the C Corp sources its own medical insurance and retirement plan.

We and Operating Entity have the right to sell, transfer, assign, and/or encumber all or any part of the assets, including the assets of the Business, and interest in, and rights and obligations under the Operating Agreement in our sole discretion, without obtaining your consent, provided that such sale or assignment will not prevent you from operating the Business in accordance with the terms of the Operator Agreement.

During the Business' first year of operations, you will be entitled to receive from the Operating Entity an annual salary of $30,000.00, paid in accordance with the Operating Entity's standard payroll practices and subject to any required withholdings (the "Franchise Managing Operator Salary"). If you purchase two Territories from us, the first year Franchise Managing Operator Salary shall be $40,000.00. If you purchase four Territories from us, the first year Franchise Managing Operator Salary shall be $60,000. Payment of the Franchise Managing Operator Salary will commence on the first day of the Initial Training Program. You must be consistently dedicating your fulltime best efforts in the operation of the Business to receive the Franchise Managing Operator Salary. All territories purchased by you must open simultaneously upon your completion of our training program. There is no Franchise Managing Operator Salary after the first year of operations.

If you use a ROBS to fund the Initial Franchise Fee, in lieu of the Managing Operator Salary, the Operating Entity shall pay the Managing Operator a first year operator fee of $30,000.00, paid in bi-weekly installments (the "Operator Fee"). If the Managing Operator purchases two Territories under multiple, simultaneously executed operating agreements, the Operator Fee will be $40,000. If the Managing Operator purchases four Territories under multiple, simultaneously executed operating agreements, the Operator Fee will be $60,000.00. Operating Entity shall commence payment of the Operator Fee on the first day of the Initial Training Program.

In addition to the Managing Operating Salary, you shall be entitled to a draw as an advance against the future Operator Profit, as defined below (the "Draw") from the Operating Entity. The Draw shall be paid bi-weekly installments and subject to any required withholding. During the first year of operations, the amount of the Draw will be at the discretion of the Operating Entity. Beginning in the second year of operations, the Draw shall equal 50% of the Operator Profit of the prior year. The Operating Entity may, as part of the ongoing review of your performance, cease, adjust, increase, decrease or continue the Draw.

We or another affiliate will manage all back office functions of the Business, including all accounts payable, customer invoicing and collections, payroll and all costs associated with the System's call center. In consideration of these services, the Operating Entity shall pay us a management fee of 7% of the Business' Gross Sales of Remediation Services during the Business' first year, 9% of the Business' Gross Sales of Remediation Services during the Business' second year and 11% of the Business' Gross Sales of Remediation Services for the remaining term of the Franchise Operator Agreement, and 5% of the Business' Gross Sales of Minor Reconstruction Services (the "Management Fee"). "Gross Sales" means all revenue



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generated from operating the Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise.

Additionally, the Operating Entity shall pay us a monthly technology fee equal to 1% of the Business' Gross Sales (the "Technology Fee") and will be required to contribute 1% of its Gross Sales during the Business' first and second year and 2% of its Gross Sales during the remaining term of the Franchise Operator Agreement, to the System's National Marketing Fund on a monthly basis (the "National Marketing Fund Contribution"). Additionally, the Operating Entity will be required to spend an amount of up to 5% of the Business' Gross Sales per month on local advertising (the "Local Advertising Contribution"). The Local Advertising Contribution shall decrease to 2.5% between years six and ten of the term of the Franchise Operator Agreement. You will assist us to best determine the most effective allocation of the Local Advertising Contribution, which the Company may determine in its sole discretion. The Local Advertising Contribution shall be deducted from the Business' Gross Sales as an Operating Expense.

All "Operating Expenses" incurred by the Operating Entity in the ongoing operation of the Business shall be deducted on an ongoing basis from the Operating Entity's receipts from the operation of the Business. "Operating Expenses" are defined as all vendor and subcontractor expenses, Management Fees, Technology Fees, rent, utilities, insurance, inventory, supplies, vehicle expenses, including fuel, equipment maintenance and replacement expenses, computer hardware and software upgrades, National Marketing Fund Contributions, Local Advertising Contributions, employee wages, training expenses (including all training fees for technicians and employees), equipment repairs and maintenance, taxes (excluding income taxes), internet service fees, depreciation and interest, and any other cost or expense related to the operation of the Business. Company or its affiliate will provide Franchise Managing Operator with monthly unaudited financial statements of the Business.

Provided that certain Minimum Gross Sales Requirement and the Minimum Management Fee Requirement are met, you will be eligible to receive 50% of the Business's Gross Profit (the "Operator Profit"). "Gross Profit" means the Business's Gross Sales before taxes and after deducting all Operating Expenses, excluding depreciation and interest, as calculated on a cash basis and at the end of the calendar year.

If Operator Profit exceeds the amount of the Draw in any calendar year (a "Surplus"), the Operating Entity shall remit the Surplus, less the Draw, to you within 90 days after the close of each calendar year. In the event the Draw exceeds the Operator Profit by any amount in any calendar year (a "Deficiency"), you shall pay the Operating Entity the Deficiency to the extent it exceeds any Managing Operator Salary (or Operator Fees in the event of a ROBS) plus additional amounts necessary to equal the minimum payment to which an hourly or exempt employee, as the case may be, is entitled to under federal and state law in your municipality. The Deficiency shall be paid within 90 days of your receiving notice of payment from Operating Entity. Your failure to timely pay the Deficiency will constitute a default under this Agreement. In the instance of a Deficiency, the Operating Entity reserves the right to agree to alternative payment terms, including a deduction of the Deficiency from future Operator Profit in subsequent calendar years.



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b. Traditional Franchise Model. We grant franchises to qualified individuals (each, a "Franchisee") the right to own and operate a WATER DAMAGE Business under a traditional franchise model (the "Traditional Franchise Model"). Under the Traditional Franchise Model, our relationship with you is governed by the terms of the Franchise Agreement (the "Franchise Agreement"), attached as Exhibit A-2 to this Disclosure Document, under which you agree to operate the WATER DAMAGE Business in strict accordance with the WATER DAMAGE System. Under the Traditional Franchise Model, you are responsible for all costs in incurring all furniture, fixtures the van, all equipment, computer(s), inventory and all supplies necessary to establish and operate the Business. You are also responsible to manage all back office functions of the Business, including all accounts payable, customer invoicing and collections, and payroll.

*1.3 Competition and Laws and Industry Regulations*

The Business will compete with similar water damage restoration services like carpet cleaners, carpenters, property remediation contractors, and cleaning services, including other national, regional and local franchise systems. Additionally, the Business may compete with businesses owned by BELFOR (USA) which provide similar remediation services as those provided by the Business. The market for water damage restoration services is well developed.

The Business is subject to all federal, state and local laws regulating water damage restoration and mold remediation services, including all health, safety, environmental and sanitation laws and regulations. Your state, county or local government may also require a contractor's license or permit to perform some of the restoration and mold remediation work we permit you to perform, and you must be licensed before offering any regulated services. Certain states also require a license for mold inspection and/or mold remediation. For the Franchise Managing Operator Model, the Operating Entity shall be responsible for obtaining any required contractor's license required to operate the Business in States which require licensing.

Your WATER DAMAGE Business will also be subject to laws or regulations that are not specific to the water damage restoration industry, but applicable to businesses in general, including zoning laws, labor laws, the Fair Labor Standards Act, workers' compensation laws, business licensing laws and tax regulations, the Occupational Health and Safety Act, and the Americans with Disabilities Act.

Regardless of any applicable regulations, you must demonstrate to us that you possess the qualifications required to perform the services offered by WATER DAMAGE Businesses.

You should investigate these laws and regulations, and keep appraised of changes that are made in areas that you service. You are solely responsible to investigate and determine licensing requirements or testing requirements in the area you would like to service before signing the Franchise Operator Agreement or Franchise Agreement. It is your sole responsibility to investigate and comply with these laws and regulations.

You must maintain any required license(s) and/or permits in good standing with the applicable licensing authority for the entire term of the Agreement.



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## ITEM 2: BUSINESS EXPERIENCE

President: Rusty Amarante

Mr. Amarante has been President of the Company since April 2015. Mr. Amarante has also served as President of WDNA, located in Ann Arbor, Michigan, since October 2015 and BELFOR located in Ann Arbor, Michigan, from March 2012 to the present. Mr. Amarante has served as Director of Operations for BELFOR USA Group, Inc., located in Birmingham, Michigan, since November 1999 to the present.

Chief Operating Officer: Andrew Mengason

Mr. Mengason has served as Chief Operating Officer of the Company from April 2015 to the present. Mr. Mengason has also served as Chief Operating Officer for WDNA, located in Ann Arbor, Michigan, since October 2015 and HOODZ, DUCTZ, BELFOR and DUCTZ North America, LLC, located in Ann Arbor, Michigan since February 2013. Before joining BELFOR, Mr. Mengason served as the Director of Special Projects for Certified Restoration Drycleaning Network (CRDN), located in Berkley, Michigan, from January 2012 to January 2013. Mr. Mengason first joined CRDN in January 2009 as the National Operations Manager and was promoted to Director of Operations in January 2011.

Chief Executive Officer: Sheldon Yellen

Mr. Yellen has been Chief Executive Officer of the Company since April 2015 to the present. Mr. Yellen also has served as Chief Executive Officer for WDNA, located in Ann Arbor, Michigan, since October 2015 and HOODZ, DUCTZ, BELFOR and DUCTZ North America, LLC, located in Ann Arbor, Michigan from July 2007 to the present. Mr. Yellen has served as Chief Executive Officer for BELFOR USA Group, Inc., located in Birmingham, Michigan, from April 2004 to the present. Mr. Yellen has also served as Director and CEO of BELFOR Holdings, Inc., in Birmingham, Michigan, since its inception in September 2006.

Chief Financial Officer: Joe Ciolino

Mr. Ciolino has been Chief Financial Officer of the Company since April 2015 to the present. Mr. Ciolino has also served as Chief Financial Officer of WDNA, located in Ann Arbor, Michigan, since April 2015 and BELFOR, HOODZ, DUCTZ, and DUCTZ North America, LLC, whose main offices are located in Ann Arbor, Michigan since July 2007. He has also served as CFO for BELFOR since July 2003. In September 2006, he became the Chief Financial Officer, Treasurer and Secretary of the newly founded BELFOR Holdings, Inc., located in Birmingham, Michigan and continues to serve in this position.

Treasurer and Secretary: Chris Jones

Mr. Jones has been Treasurer and Secretary of the Company since April 2015 to the present. Mr. Jones has also served as Treasurer and Secretary of WDNA, located in Ann Arbor, Michigan, since October 2015 and BELFOR, HOODZ, DUCTZ, and DUCTZ North America, LLC, whose main offices are located in Ann Arbor, Michigan, from July 2007 to present. Mr. Jones has also



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served as Group Controller for BELFOR USA Group, Inc., located in Birmingham, MI, from July 2005 to the present.

Director of Franchise Development: Ken Osness

Mr. Osness has served as our Director of Franchise Development since September 2015. Mr. Osness has served as a Franchise Development Manager for HOODZ since April 2009 and served as the Franchise Development Manager of DUCTZ from June 2006 to January 2015.

## ITEM 3: LITIGATION

*Concluded Predecessor Litigation*: Our predecessor LLB Group, Inc., formerly known as The Cure Service Group, Inc., was a party to the following concluded matters:

Art Neumann vs. The Cure Service Group dba Cure WATER DAMAGE; 1-800-WATER DAMAGE, Inc., Rick Stonell a/k/a Ricky Stowell, Lisa Bongi a/k/a Lisa Stonell; (Case No. BC-342368, Superior Court of the State of California, County of Los Angeles). Art Neumann, a 1-800 WATER DAMAGE franchisee, filed a complaint on November 2, 2005, for an unspecified amount of damages against LLB Group, Inc., as well as its former officers Rick Stonell and Lisa Bongi alleging causes of action for breach of written agreement, breach of covenant of good faith and fair dealing, selling franchises in violation of the California Franchise Investment Law, unfair trade practices in violation of the California Unfair Trade Practices Act, injunctive relief, intentional misrepresentation and negligent misrepresentation in connection with a written agreement the parties signed in July 1999, which Mr. Neumann alleges was a franchise that was not registered with the California Department of Corporations. The matter was settled on May 5, 2006 and the action was dismissed, along with an action filed by LLB Group against Mr. Neumann, with prejudice on May 8, 2006. LLB Group, Inc. paid Mr. Neumann an agreed-upon sum, confirmed the termination of his Franchise Agreements and waived the non-compete covenants in his Franchise Agreement to allow him to continue to operate his former franchises as an independent operator under a name other than Cure WATER DAMAGE and 1-800-WATER DAMAGE.

Charlene Keating vs. The Cure Service Group, Inc.; (Case No. HHD-CV-06-4022914-S, Superior Court of the State of Connecticut, Hartford Judicial District). Ms. Keating, a 1-800 WATER DAMAGE franchisee, filed a Complaint on April 20, 2006 against LLB Group, Inc. for rescission of her Franchise Agreement, for restitution and damages, alleging violations of the Connecticut Business Opportunity Act. The matter was settled on June 8, 2006 and the action was dismissed with prejudice on July 6, 2006. LLB Group paid Ms. Keating an agreed-upon sum, terminated her Franchise Agreement and exchanged mutual general releases of all claims. In addition, in February 2006, Ms. Keating filed a Complaint with the State of Connecticut Department of Banking, Securities and Business Investments Division alleging that LLB Group violated the Connecticut Business Opportunity Act, which complaint was voluntarily withdrawn by Ms. Keating in July 2006.

Virginia State Corporation Commission vs. The Cure Service Group, Inc.; (Case No. SEC-2006-00006). In November 2005 and December 2005, LLB Group voluntarily acknowledged to



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the State of Virginia State Corporation Commission, Division of Securities and Retail Franchising, that its disclosure documents filed in Virginia in 2004 may not have contained all disclosures required by the Virginia Retail Franchising Act (the "Virginia Act") and may have violated the Virginia Act by failing to include the true name of its prior CEO and bankruptcy and litigation matters concerning the prior CEO. On August 23, 2006, LLB Group entered into a Settlement Order with the Commission under which, among other things, LLB Group withdrew its pending Application for Registration Renewal, agreed that it would not apply for registration to sell franchises in Virginia for two years if one of its then current officers remained as an officer or manager of LLB Group, paid the State of Virginia the sum $15,750 and agreed that it would not offer or sell franchises within or from the State of Virginia without compliance with the Virginia Act.

California Corporations Commissioner vs. The Cure Service Group, Inc. et al., (OAH-N2006050063, File No.: 993-1560). On July 13, 2006, LLB Group and two of its officers entered into a settlement agreement with the California Corporations Commissioner in which they acknowledged that between 2002 and 2004, LLB Group sold unregistered franchises in California and sold franchises with disclosure documents that failed to disclose certain prior lawsuits and convictions involving LLB Group's prior Chief Executive Officer. LLB Group agreed to disclose the terms of the settlement agreement, along with other required matters in any application for franchise registration filed with the California Department of Corporations.

In the Matter of Determining whether there has been a violation of the Franchise Investment Protection Act of Washington by: The Cure Services Group, Inc. et. al. (Order No. S-06-074-06-CO01) In December 2005, LLB Group voluntarily acknowledged to the State of Washington, Department of Financial Institutions, Securities Division, that its disclosure documents filed in Washington from 2002 through 2005 may not have contained disclosures regarding a certain bankruptcy filed by its former Chief Executive Officer as required by the Washington Franchise Investment Protection Act (the "Washington Act"). On July 17, 2006, LLB Group entered into a Consent Order with the Securities Division under which it agreed that it would not offer or sell franchises within or from the State of Washington without compliance with the Washington Law, that it would disclose the existence and contents of the Consent Order in all Franchise Disclosure Documents used in Washington in the future, that it would provide its Washington franchisees with a copy of the Consent Order and paid the Securities Division $650 as payment of its investigation costs.

State of New York. In November 2005, LLB Group voluntarily acknowledged to the State of New York, Department of Law that that its disclosure documents filed in New York in 2003 may not have contained all disclosures required by the New York State Franchise Act (the "New York Act"). In February 2006, LLB Group entered into an Assurance of Discontinuance with the State of New York Department of Law under which it agreed that it would not offer or sell franchises within or from the State of New York without compliance with the New York Act. LLB Group agreed to offer its New York franchisee the right to rescind its franchise agreement, which the franchisee rejected, and paid the State of New York Department of Law $4,750 as costs and disbursements.

Other than the matters listed above, no litigation is required to be disclosed in this Item.



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## ITEM 4: BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

## ITEM 5: INITIAL FEES

*5.1. Initial Franchise Fee*

Upon signing of the Agreement, you must pay an initial fee to us of $79,000.00 (the "Initial Fee") for a single territory with a population of approximately 350,000 people. The Initial Fee is fully earned and non-refundable when paid. We have the right to offer a discounted Initial Fee from time to time. If you wish to purchase additional territory, the Initial Fee will equal $79,000, plus $225 per thousand in population in excess of 350,000 (the "Additional Fee"). For example, the Initial Fee for a single territory with 385,000 in population will be computed as follows:

$$\$79,000 + (35 \times \$225) = \$86,875$$

As the territories are generally defined by zip codes, we reserve the right not to charge the Additional Fee if we are unable to meet the 350,000 population count without exceeding due to highly populated areas.

Each territory will have a maximum of 500,000 people. The purchase of more than 500,000 in population in the aggregate at any time during the term of the Agreement will require the payment of an additional Initial Fee.

WATER DAMAGE provides a $5,000 discount of the Initial Fee to veterans of the U.S. Armed Forces who have been honorably discharged and provide us with documentation of the same. This is only applicable for the first franchise awarded to you by the BELFOR franchise system.

We allow qualified prospects to purchase either one additional contiguous territory for a total of two territories, or three additional contiguous territories for a total of four territories. You will be required to pay an Initial Fee and sign an Agreement for each territory you purchase. We will discount the Initial Fee for the fourth Agreement by $25,000.00 provided that you purchase the additional territory at the time of purchasing the first territory. The discount is only applicable toward your initial purchase and will not be granted toward any future territory expansion.

You may apply for an additional franchise and, if we approve your request, you may be awarded an additional franchise. For additional franchises awarded to you, you must agree to sign our then current Agreement and remit to us our then current Initial Fee.



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You are not required to pay the Initial Fee for renewal terms, but you must pay our then-current renewal term fee.

*5.2. Initial Package Fee (Traditional Franchise Model Only)*

If you enter into a Traditional Franchise Agreement, you must also obtain a fixed initial package ("Initial Package") that will cost $80,000.00. (the "Initial Package Fee"). The Initial Package includes the equipment package, small tools and safety package, our marketing materials, trademarked office supplies and apparel, and a $500 convention allowance (the "Convention Allowance") for the 1-800 WATER DAMAGE annual convention (the "Annual Convention"). The Convention Allowance is intended to offset expenses (primarily the convention fees, but any remaining balance may be applied towards travel, lodging, and/or meals) associated with attending the first 1-800 WATER DAMAGE Annual Convention that is scheduled to commence within one year of your successful completion of our Initial Training Program. If your convention expenses are less than $500, the difference will be rebated to you. The Convention Allowance cannot be used to offset any other expenses or requirements associated with your Franchised Business and if you do not attend the convention, we will not provide you with the Convention Allowance.

You are not required to pay the Initial Package Fee for renewal terms

If you are acquiring your WATER DAMAGE Business via transfer and you are purchasing the entire WATER DAMAGE Business from the previous owner, you are not currently required to purchase the Initial Package; however, you must purchase the equipment not included in the transfer necessary to provide all current services and you must pay the $500 Convention Allowance, which may be refunded to you as described above. If you are only purchasing a portion of the Franchise being sold, you must purchase the entire Initial Package.

## ITEM 6: OTHER FEES

### A. MANAGING OPERATOR MODEL

| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| Transfer Fee | Our then-current fee, per Territory; presently, $9,900 if transferred to a new Franchise Managing Operator, or $2,000 if transferred to an existing Franchise Managing Operator. | Due upon the transferee signing the new Franchise Operator Agreement | The Franchise Operator Agreement is a personal services contract and your interests in the Franchise Operator Agreement may not be assigned or transferred for any reason during the first five years of its term except in the event of your disability as described in Section 15.5 of the Franchise Operator Agreement and Section 14.2 of the Franchise Operator |



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| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| | | | Agreement. Thereafter, you may only transfer or assign your interest to a third- party individual who agrees to assume all of your obligations and responsibilities under the Franchise Operator Agreement. We reserve the right to increase this fee. |
| Transfer Fee - Broker Fee | If you authorize us to enlist a third-party broker to locate the transferee, there will also be a broker fee, which currently ranges from $25,000 - $30,000 | Due upon closing of the sale of the Franchised Business | Payable only if the third-party broker located the transferee. Payable to and imposed and collected by us if a broker fee was paid by WATER DAMAGE to the third party. Payable to and imposed and collected by the broker if we do not pay a broker fee to the third party. |
| Renewal Fee | 10% of the then-current Initial Fee | At the time you sign a Franchise Operator Agreement for a renewal term | Neither the Management Fee rate nor Territory will change for the renewal term. |
| Management Fee | The Operating Entity will pay us a Management Fee of 7% of the Business' Gross Sales of Remediation Services during the Business' first year, 9% of the Business' Gross Sales of Remediation Services during the Business' second year and 11% of the Business' Gross Sales of Remediation Services for the remaining term of the Operator Agreement; and 5% of the Business' Gross Sales of Minor Reconstruction Services. | Monthly | We or our affiliate will manage all back office functions of the Business, including all accounts payable, customer invoicing and collections, payroll and all costs associated with the System's call center. The Management Fee shall be deducted from the Business' Gross Sales as an Operating Expense. |
| Technology Fee | The Operating Entity will pay us a Technology Fee of 1% of the Business' Gross Sales. | Monthly | Franchise Managing Operator acknowledges we or our affiliates will provide all Software and software upgrades and updates |



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| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| | | | necessary to operate the Business. The Technology Fee shall be deducted from the Business' Gross Sales as an Operating Expense. |
| National Marketing Fund Contributions | The Operating Entity will contribute to us 1% of its Gross Sales during the Business' first and second year and 2% of its Gross Sales during the remaining term of the Operator Agreement, to the System's National Marketing Fund on a monthly basis. | Monthly | National Marketing Fund contribution shall be deducted from the Business' Gross Sales as an Operating Expense. |
| Local Advertising Contribution | We have the right to require the Operating Entity to spend an amount up to 5% of the Business' gross sales per month on local advertising, which will decrease to 2.5% between years six and ten of the term of the Operating Agreement. | Monthly | The Local Advertising Contribution shall be deducted from the Business' Gross Sales as an Operating Expense. |
| Insurance | The Operating Entity shall obtain and maintain in full force and effect throughout the term of the Operator Agreement the insurance coverage that we require. We recommend, but do not require, that you obtain separate general liability insurance covering your operation of the Business. The costs and expenses of this additional insurance are your sole responsibility.<br><br>If you utilize a ROBS | As invoiced. | The Operating Entity is required to maintain the types and amounts of insurance specified in Item 8. |



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| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| | plan, you are required to obtain and maintain at your sole expense general liability and workers compensation insurance policies as set forth in Item 8. | | |
| Late Report Fee | $20 per week that a report is late | Due by automatic debit the Friday (or another day we may designate) after the report is late | Deducted from the Operator Profit. |
| Late Payment Fee | 5% of amount due or $50 per week, whichever is greater | Due by automatic debit on the Friday (or another day we may designate) following the due date for each late payment | Deducted from the Operator Profit. |
| Improper Marketing Fee | Our then-current fee, which is presently $500 per transaction or the cost of job for each incident of unauthorized advertising | As incurred | Deducted from the Operator Profit. See Note 3. |
| Interest | Lesser of 18% per annum or the maximum permitted by law, whichever is less | Due by automatic debit each Friday (or another day we may designate) | Due on all overdue amounts from the date the amounts were originally due. |
| Deficiency Payment | The amount to which any Draw exceeds the Operator Profit by any amount in any calendar year | Within 90 days of your receipt of notice of payment | Your failure to timely pay will constitute a default under this Franchise Operator Agreement. In the instance of a Deficiency, the Operating Entity reserves the right to agree to alternative payment terms, including a deduction of the Deficiency from future Operator Profit in subsequent calendar years. |



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| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| Indemnification | Will vary under circumstances | As incurred | You must reimburse us if we are held liable for claims directly or indirectly arising out of your Franchised Business' operation. |
| Attorney's Fees | Actual attorneys' fees and costs incurred | As incurred | See Note 4. |

## B. TRADITIONAL FRANCHISE MODEL

| Name of Fee (Note 1) | Amount (Note 2) | Due Date | Remarks (Note 1) |
|---|---|---|---|
| Transfer Fee | Our then current fee, per Territory; presently, this is $9,900 if transferred to a new franchisee, or $2,000 if transferred to a current franchisee. | Due upon the transferee signing the new Franchise Agreement | No charge if the transfer is to an entity controlled by you to a spouse or child. We reserve the right to increase this fee. |
| Transfer Fee - Broker Fee | If you authorize us to enlist a third-party broker to locate the transferee, there will also be a broker fee, which currently ranges from $25,000 - $30,000 | Due upon closing of the sale of the Franchised Business | Payable only if the third-party broker located the transferee. Payable to and imposed and collected by us if a broker fee was paid by WATER DAMAGE to the third party. Payable to and imposed and collected by the broker if we do not pay a broker fee to the third party. |
| Renewal Fee | 10% of the then-current Initial Fee | At the time you sign a Franchise Agreement for a renewal term. | Neither the Royalty rate nor Territory will change for the renewal term. |
| Royalty (Note 2) | 10% of all of the Business' Gross Sales of Remediation Services and 5% of the Business' Gross Sales of Reconstruction Services. | This fee is due by automatic debit each month by the 10th (or another day we may designate) for Gross Sales generated during the preceding month (Note 5) | See Notes 5 and 6. |



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| Name of Fee<br><br>(Note 1) | Amount<br>(Note 2) | Due Date | Remarks<br>(Note 1) |
|---|---|---|---|
| Technology Fee | Our then current fee, which is presently 1% of Gross Sales | This fee is due by automatic debit each month by the 10th (or another day we may designate) for Gross Sales generated during the preceding month. | We will provide all Software and software upgrades and updates necessary to operate the Business. |
| National Marketing Fund Contributions | 2% of Gross Sales | This fee is due by automatic debit each month by the 10th (or another day we may designate) for Gross Sales generated during the preceding month. | |
| Local Advertising Contribution | We require you to spend a minimum of 3% of the Business' gross sales per month on local advertising and marketing, but recommend that you spend amounts in excess of 3%. | Monthly | |
| Late Report Fee | $20 per week that a report is late | Due by automatic debit the Friday (or another day we may designate) after the report is late | Due for each week a report is late. |
| Late Payment Fee | 5% of amount due or $50 per week, whichever is greater | Due by automatic debit on the Friday (or another day we may designate) following the due date for each late payment | Due for any payment that is not paid when due. |
| Improper Marketing Fee | Our then-current fee, which is presently $500 per transaction or the cost of job for each incident of unauthorized advertising | As incurred | See Note 3. |



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| Name of Fee<br><br>(Note 1) | Amount<br>(Note 2) | Due Date | Remarks<br>(Note 1) |
|---|---|---|---|
| Annual Convention Savings | $100 per month | Due by automatic debit on the 10th day of each month beginning the first January after entering the System | See Note 7. |
| Convention Non-Attendance Fee | Our then current fee, which is presently $1,200 | Due to us if you fail to attend the Annual Convention and did not receive our prior written permission. | See Note 8. |
| Interest | Lesser of 18% per annum or the maximum permitted by law, whichever is less | Due by automatic debit each Friday (or another day we may designate) | Due on all overdue amounts from the date the amounts were originally due. |
| Audit Fee | Cost of audit plus 10% of the total amount of understated Gross Sales. | As invoiced | See Note 9. |
| Insurance | Cost of insurance; if you fail to maintain insurance as required, we have the right to procure insurance on your behalf and you must pay us on demand the costs and premiums we incur. | As invoiced | You are required to maintain the types and amounts of insurance specified in Item 8. |
| Indemnification | Will vary under circumstances. | As incurred | You must reimburse us if we are held liable for claims directly or indirectly arising out of your Franchised Business' operation. |
| Attorney's Fees | Actual attorneys' fees and costs incurred. | As incurred | See Note 4. |
| Additional Training | Our then current fee, which is presently $25 - $50 per person, per day. | As incurred | See Note 10. |

Notes

1. The preceding table describes other reoccurring or isolated fees or payments that must be paid to us or our affiliates, or which we or our affiliates may impose or collect on behalf of a third party, in whole or in part.



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2. All fees, unless otherwise specified, are uniformly imposed and collected by and payable to WATER DAMAGE and are non-refundable.

3. You may not advertise or solicit in any way to customers or customer service locations outside the Territory without our prior written consent. If you advertise or solicit to customers or customer service locations outside of the Territory without our prior written consent, you must pay us a fee equal to the greater of $500 or the cost of job for each incident of unauthorized advertising (the "Improper Marketing Fee"). This fee is in addition to, and not in lieu of, any other rights we have under the Agreement.

4. If you are in breach or default of any monetary or non-monetary material obligation under the Agreement or any related agreement between you and us or our affiliates, and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of the Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

5. For purposes of paying the Royalty, we follow the calendar month. The Royalty will be assessed to you upon the earlier of (a) receipt of funds from the customer; or (b) 90 days after the date an original invoice is issued to the customer, regardless of whether the invoice is paid in full. If you transfer the Franchise Agreement to a new owner, the Royalty for all jobs completed prior to the transfer must be paid on the day of closing, regardless of whether the invoice(s) is paid in full. On the effective date of termination of the Franchise Agreement, either by you or by us, you must pay us the Royalty for all jobs completed prior to termination. We will draft the Royalty from your bank account on 10$^{th}$ of the month (or another day we may designate) for the preceding month. You must pay the Royalty by electronic funds transfer or by such other means as we may specify. We may periodically specify other dates for payment of the Royalty.

6. Royalties are payment for the use of the Marks, System, Territory, and 1-800 WATER DAMAGE System Standards. "Gross Sales" means all revenue generated from operating the Franchised Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise. You may deduct sales tax and returns.

7. A monthly draft of $100 beginning the first January through the last draft of December each year for a total of $1,200 collected per year (the "Convention Savings") to be rebated back to you within 60 days after the Annual Convention. Full attendance at the Annual Convention is required to receive the full rebate. If you do not attend the Annual Convention and did not receive our prior written permission for not attending, the Convention Savings will be applied to the penalty fee for not attending (the "Convention Non-Attendance Fee").

8. If you fail to attend the Annual Convention, without our prior written permission, you must pay the Convention Non-Attendance Fee of $1,200. If you miss your first Annual Convention, the $500 Convention Allowance included in the Initial Package will be applied toward the Convention Non-Attendance Fee. If you fail to attend any future Annual



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Convention(s), without our prior written permission, the Convention Savings from the prior year will be applied toward the Convention Non-Attendance Fee.

9. We have the right at any time during business hours, and without prior notice to you, to inspect and audit, or cause to be inspected and audited, any and all financial statements, reports, income tax records, sales tax records, payroll records, software databases, and other records. You promise to cooperate fully with our representatives and independent accountants we hire to conduct any inspection or audit. If any inspection or audit discloses an understatement of Gross Sales, we can debit your account for the Royalty and National Marketing Fund contributions which are due on the amount of the understatement, plus interest, at the rate of 18% per annum or the maximum rate permitted by applicable law, whichever is lesser, and all late fees, from the date originally due until the date of payment.

Furthermore, if we conduct an inspection or audit due to your failure to (a) furnish reports, supporting records, or other information as required, (b) furnish these items on a timely basis, or (c) record all Customer payments in the WATER DAMAGE Software within 48 hours of their receipt, or we discover that an understatement of Royalty Fee is greater than 3% for any period reviewed, you promise to reimburse us for the cost of the inspection and/or audit, including without limitation, the charges of attorneys and independent accountants, the travel, room and board expenses, and compensation of our employees. Further, if an understatement of the Royalty Fee is greater than 3%, you also promise to pay us an additional penalty fee equal to 10% of the total amount of the understated Gross Sales.

These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

10. You must attend periodic refresher training courses and conferences, not to exceed one convention/conference per year, at the times and locations we determine, and for which we may charge fees. This training may, at our option, be online. We will determine the duration, curriculum, and/or location of any online or other training. You will be responsible for all travel and living expenses that are incurred by you while attending such additional courses, conferences, and sessions (Section 3.A of the Franchise Agreement). The Business' service technicians may be required to attend periodic refresher training courses and conferences, not to exceed one session per year, at the times and locations we determine, and for which we may charge a fee. This training may, at our option, be online. We will determine the duration, curriculum, and/or location of any online or other training. You are responsible for training any additional or replacement service technicians. (Section 4.3)

## ITEM 7: ESTIMATED INITIAL INVESTMENT

### A. MANAGING OPERATOR MODEL

**YOUR ESTIMATED INITIAL INVESTMENT**

| Type of Expenditure | Amount | Method of Payment | When Due (Note 1) | To Whom Payment is To Be Made |
|---|---|---|---|---|



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| Type of Expenditure | Amount | | Method of Payment | When Due (Note 1) | To Whom Payment is To Be Made |
|---|---|---|---|---|---|
| Initial Fee per Territory (Note 2) | $79,000 | $112,750 | Lump sum | On signing your Franchise Operator Agreement | Us |
| Insurance (Note 3) | $0 | $8,750 | | | |
| Additional Funds (Note 4) | $0 | $0 | | | |
| TOTAL ESTIMATED INITIAL INVESTMENT & ADDITIONAL EXPENSES | $79,000 | $121,500 | | | |

Notes

1. Except as otherwise stated herein, none of the amounts listed in the above chart are refundable.

2. The price of the Initial Fee varies based on the population in the Territory. The Initial Fee is $79,000 plus $225 per 1,000 in population over 350,000 people. The maximum population in a single Territory is 500,000. Estimates are based on a new Franchisee buying their first Franchise. See Item 5. We do not offer direct or indirect financing. We will not guarantee any note, leases or other obligation.

3. If you utilize a ROBS plan to fund any portion of the Initial Fee, you shall obtain and maintain in full force and effect throughout the term of the Franchise Operator Agreement and at your sole expense, certain insurance coverages as described in the 401k Addendum. This item estimates the cost to attain insurance for the first three months of business. You must provide us with evidence of insurance coverage prior to attending training.

4. All of the initial equipment, inventory, supplies and other property necessary to operate the Business will be supplied and installed by the Operating Entity. These initial start-up costs will be deducted as an Operating Expense. Additionally, the Operating Entity will enter into a lease for the Office, which shall be located within the Territory. We will be responsible for all of your travel and living expenses incurred in attending Initial Training. On training days, we will provide breakfast and lunch for you and any other employees of the Operating Entity that attend. We will reimburse you for any reasonable dining expenses up to $30.00 per day, if a meal is not already being provided by us.

**B. TRADITIONAL FRANCHISE MODEL**



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## YOUR ESTIMATED INITIAL INVESTMENT

| Type of Expenditure | Amount | | Method of Payment | When Due (Note 1) | To Whom Payment is To Be Made |
|---|---|---|---|---|---|
| Initial Fee per Territory (Note 1) | $79,000 | $112,750 | Lump sum | On signing your Franchise agreement | Us |
| Initial Package Fee (Note 2) | $80,000 | $80,000 | Lump sum | On signing your Franchise agreement; not applicable for additional franchises awarded to you | Us |
| Food and lodging while at Initial Training (Note 3) | $3,350 | $4,000 | Lump sum | As incurred | Third Parties |
| Transportation for Initial Training (Note 3) | $100 | $2,500 | Lump sum | As incurred | Third Parties |
| Vehicle (Note 4) for 3 months | $15,600 | $16,250 | One-time down payment, followed by monthly payments | As incurred | Third Parties |
| Full time Service Technician for 3 months (Note 5) | $5,760 | $15,360 | Payroll | Per your standard payroll policy | Employee |
| Business Telephone Fee for 3 months | $80 | $120 | Lump sum | As incurred | Third Parties |
| High Speed Internet, Anti-Virus Software and Electronic Mail for 3 months | $89 | $159 | Lump sum | As incurred | Third Parties |
| Computer System (Note 6) | $0 | $2,875 | Lump sum | As incurred | Third Parties |
| Insurance for the first 3 months (Note 7) | $4,500 | $8,750 | Depends on insurance agency | Depends on insurance agency | Third Parties |



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| Type of Expenditure | Amount | | Method of Payment | When Due (Note 1) | To Whom Payment is To Be Made |
|---|---|---|---|---|---|
| Global Positioning System/Data Communications Services Fee first 3 months (Note 8) | $198 | $198 | Monthly/36-month contract | As incurred | Third Parties |
| Shipping, Handling and Taxes for the Initial Package (Note 9) | $150 | $1,000 | Lump sum | As incurred | Third parties and/or Us |
| Rent – 3 months (Note 10) | $3,000 | $5,700 | Lump sum | As incurred | Third Parties |
| Leasehold Improvements (Note 11) | $0 | $1,200 | Lump sum | As incurred | Third Parties |
| Security Deposits/ Utility Deposits (Note 12) | $950 | $1,500 | Lump sum | As incurred | Third Parties |
| Licenses and Permits (Note 13) | $35 | $200 | Lump sum | As incurred | Third Parties |
| Additional funds for the first 3 months (Note 14) | $10,000 | $30,000 | Lump sum | As incurred | Third Parties |
| TOTAL ESTIMATED INITIAL INVESTMENT & ADDITIONAL EXPENSES | $202,812 | $282,562 | | | |

Notes

1. In general, none of the expenses listed in the above chart are refundable, except security or utility deposits may be refundable. The price of the Initial Fee varies based on the population in the Territory. The Initial Fee is $79,000 plus $225 per 1,000 in population over 350,000 people. The maximum population in a single Territory is 500,000. Estimates are based on a new Franchisee buying their first Franchise. We may offer financing up to $10,000 of the Initial Franchise Fee. You are required to pay a minimum down payment of $69,000 for your Initial Franchise Fee. The monthly payments on a note for $10,000 over 24 months at 8% interest would be $452.27. We reserve the right to adjust the percentage of interest up to 10% depending upon economic conditions;



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however, we will not adjust the terms of a note once your Franchise Agreement has been signed.

2. Estimates are based on a new franchise owner buying their first Franchise. However, the Initial Package Fee is waived for renewal terms. The Initial Package Fee includes a 1-800 WATER DAMAGE equipment package, initial marketing materials, apparel for owner and employee uniforms with our Marks.

3. Covers out-of-pocket expenses for lodging and meals for two attendees, who are sharing one hotel room. Transportation cost on the low estimate is based on an attendee driving their own vehicle and the high estimate is based on two airline tickets and rental car while attending training.

4. All vehicles must be leased or purchased through our then currently approved supplier(s). All vehicles must have the equipment and the 1-800 WATER DAMAGE decal package per our standards and specifications. The low range estimate is for a new vehicle with equipment and vinyl decal package, and includes a security deposit of $11,700.00 + $495.00 (a one-time administrative fee), and the first three monthly payments, title/registration/prep fee and documentation fee based on a four-year purchase note. The high range estimate is for a new vehicle with equipment and vinyl decal package, and includes a security deposit of $11,700.00 + $495.00 (a one-time administrative fee), and the first three monthly payments, title/registration/prep fee and documentation fee based on a six-year purchase note. Your cost may differ from our estimates based on the year and model, interest rate, and if you choose a longer/shorter term. The costs referenced include up-fitting charges. Vehicle delivery, applicable sales tax and licensing are not included.

5. You must dedicate a full-time Service Technician to perform the actual cleaning services for the Franchised Business. This low estimate is based on a Managing Owner working with the technician and the high estimate is based on employing a certified crew leader and a technician.

6. You must have a computer located at your office site that meets the requirements of 1-800 WATER DAMAGE System Standards and for handling of our then-current 1-800 WATER DAMAGE franchise management software.

7. Before beginning the Franchised Business, you shall obtain and maintain in full force and effect throughout the term of the Franchise Agreement and at your sole expense, certain insurance coverages as described in the Franchise Agreement. This item estimates the cost to attain insurance for the first three months of operation. You must provide us with evidence of insurance coverage prior to attending training.

8. You are required to have installed and maintain a GPS unit in each service vehicle throughout the term of the agreement. The cost of the unit is approximately $100. Monthly service fee is $32.50.



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9. The shipping, handling and taxes range based on location. Locations outside of the continental USA may have higher rates. You are responsible for reporting any applicable sales taxes due to your state on your tax forms.

10. You must lease or own a space for your business, you will need approximately 1,200 square feet of space and will include commercial office space with a garage to store the service vehicle. The rent per month will be determined by the size of the space and the location.

11. You may need to purchase minimal leasehold improvements. The cost will vary depending on the size of the Franchised Business and any landlord contributions.

12. You may be required to pay a security deposit. The cost will vary depending on your landlord. You may also be required to pay utility deposits. The cost will vary depending on the provider in your area.

13. Before you open your Franchised Business, you must obtain any required licenses and business permits. You must verify all of the licenses and permits that you need for your Franchised Business.

14. This Item estimates the working capital needs for the first three months of operation, not including those expenses identified separately in the table. It includes payroll costs for operation and customer service employees, out-of-pocket direct mail costs, general auto maintenance and gasoline, and office overhead. The estimate of additional funds does not include an owner's salary or draw. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. The amount of working capital you need will depend on a number of factors. These factors include the area you are located in; how much you follow our methods and procedures; your management skill; experience and business acumen; local economic conditions; the relative effectiveness of your staff; the prevailing wage rate; competition; and the sales level reached during the initial period.

We have relied upon our company-owned store, 1-800 WATER DAMAGE of Seattle, along with the experiences of our 1-800 WATER DAMAGE franchisees, to compile these estimates. You should review them carefully with a business advisor before making any decision to purchase the franchise.

## ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

### *8.1 Initial Equipment and Inventory*

*8.1.A Managing Operator Model.* All of the initial equipment, inventory, supplies and other property necessary to operate the Business will be supplied and installed by the Operating Entity. These initial start-up costs will be deducted as an Operating Expense. Additionally, the Operating Entity will enter into a lease for the Office, which shall be located within the Territory.



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*8.1.B Traditional Franchise Model.* You must purchase the Initial Package of certain equipment and small tools package for Remediation Services, safety equipment, a convention fee credit, and supplies as described and listed in Exhibit B to the Franchise Agreement. Our affiliate, BHI, is the only approved supplier for the small tools, equipment and safety package, and branded apparel. The items included in the Initial Package will change to reflect the changing needs of the Business in accordance with System procedures, and changes in suppliers and/or product specifications. We retain the right to derive revenue or other material consideration from required purchases and leases of products and services.

The marketing materials and trademarked office supplies that are included in the Initial Package are shipped, F.O.B. from our approved supplier(s) located in West Bloomfield, MI, Exton, PA, and Tecumseh, MI. You must purchase the entire Initial Package, and you are responsible for all applicable shipping and handling fees and sales tax.

*8.2 Required Purchases*

All products and supplies used in connection with the Business will be purchased from us, our affiliates or our designated vendors and suppliers. Some of our officers have an ownership interest in our affiliates BELFOR, BHI Distribution, Greenblendz and Colman Wolf, which may supply products and services to the Business. There are no other suppliers in which any of our officers owns an interest at this time, although they reserve the right to do so in the future.

We have developed standards and specifications for various services, products, materials and supplies sold by or used in the operation of the Business. You must operate the Business according to these standards. These standards will regulate the types, models and brands of required fixtures, furnishings, equipment, signs, materials and supplies to be used in operating the Business, the products and services offered to customers and the product categories and designated or approved suppliers of these items (which may be limited to or include us).

*8.3 Email and Web Site*

We will provide to you an email address that will have "@1800waterdamage.com" as its suffix. Emails sent to you at 1800waterdamage.com will be automatically forwarded to you at your email account.

We will create interior pages on the website(s) that contain information about the WATER DAMAGE Business and other WATER DAMAGE franchised businesses.

Except as approved in advance in writing by us, you must not establish or maintain a separate website, splash page, profile or other presence on the Internet, or otherwise advertise on the Internet or any other public computer network in connection with the Business, including any profile on Facebook, Twitter, LinkedIn, Plaxo, YouTube, Pinterest, Instagram, or any other social media and/or networking site. If such approval is granted by us, you must: (i) establish and operate such World Wide Web or Internet site in accordance with System standards and any other policies we designate in the Operations Manuals or otherwise in writing from time to time; and (ii) utilize any templates that we provide to you to create and/or modify such site(s).



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*8.4 Insurance*

If you enter into the Managing Operator Model, the Operating Entity shall obtain and maintain in full force and effect throughout the term of the Franchise Operator Agreement the insurance coverage that we require. The cost of insurance will be deducted as an Operating Expense. We recommend, but do not require, that you obtain separate general liability insurance covering your operation of the Business. The costs and expenses of this additional insurance are your sole responsibility.

If you utilize a ROBS to fund the Initial Fee, you will be required to maintain, at your sole cost, the following insurance policies: (a) Commercial General Liability Insurance with limits of at least $2,000,000 general aggregate, $2,000,000 products and completed operations aggregate, $1,000,000 personal and advertising injury limit, and $1,000,000 per occurrence limit; (b) workers' compensation and employers' liability with limits of at least $500,000 by accident, $500,000 by disease and $500,000 policy limit; or the minimum limit required by state law, whichever is higher; and umbrella liability insurance with a limit of at least $2,000,000 per occurrence and aggregate and shall list the commercial general liability and workers' compensation/employers' liability policies as scheduled underlying policies. We, along with the Operating Entity and 1 800 WATER DAMAGE North America, LLC shall be named as an additional insured on such policies on a primary and noncontributory basis.

If you enter into the Traditional Franchise Model, you shall obtain and maintain in full force and effect throughout the term of the Franchise Agreement the insurance coverage that we require.

Currently, the minimum insurance requirements are as follows: (a) commercial general liability insurance in the minimum amount of $2,000,000 general aggregate, $2,000,000 products and completed operations aggregate, $1,000,000 personal and advertising injury limit and $1,000,000 per occurrence limit; (b) automobile liability insurance with a combined single limit of at least $1,000,000 for bodily injury and property damage for all owned or leased vehicles and for hired and non-owned motor vehicles; (c) workers' compensation and employers' liability insurance in the minimum amount of $500,000 by accident, $500,000 by disease and $500,000 policy limit, or the minimum limit required by your state, whichever is higher; (d) employee dishonesty insurance in the minimum amount of $50,000 per loss; (e) a commercial umbrella liability insurance policy with a limit of at least $2,000,000 per occurrence and aggregate and shall list the commercial general liability and automobile liability policies as scheduled underlying policies; (f) a pollution insurance policy with a limit of at least $1,000,000; and (g) other insurance as required by any state, county, local, or other municipal insurance requirements.

*8.5 Material Benefits*

As a Franchisee, you will not receive any material benefits from the Business' purchase of certain products or services or use of particular suppliers.

*8.6 Approval of Alternative Suppliers*



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All products must meet our standards and specifications and must be pre-approved by us regardless of the supplier. In the event you wish to purchase an unapproved item for the Business, including inventory, and/or acquire approved items for the Business from an unapproved supplier, you must provide us with a proof of the materials you wish to order and a written request for approval. We will notify you in writing of our approval or disapproval within ten days of receipt of the materials and your written request. We have no obligation to approve any particular products, service or supplier. If you do not receive approval within ten days, you should consider the materials disapproved. All materials must meet the quality of our current suppliers, and correctly bear the Marks. Standards and specifications for suppliers and products are periodically modified to meet changing market conditions and are published in our Operations Manuals, other publications, and on our website. Approval of a supplier may be conditioned on requirements relating to product quality, production and delivery capabilities, ability to meet our supply commitments and financial stability. Standards and specifications are updated periodically at our sole determination and are made available to you in our Operations Manuals, other publications, and on our web site. There is no fee to secure approval to purchase from alternative suppliers, but you must reimburse us our reasonable costs, regardless of approval of your request. At our discretion, we may, with notice to you, revoke our approval of any previously approved products due to changes in standards and specifications or if such products subsequently fail to meet the quality of our current suppliers.

Use of products and materials that have not received our prior written approval and/or do not meet our standards and specifications can result in the termination of your Franchise Operator Agreement.

*8.7 Business Phone*

We may require you to use the phone models and type from the supplier(s) that we designate.

*8.8 Standards and Specifications*

You must operate the Business according to our standards, specifications, and operating procedures. We will formulate and modify standards and specifications based on our and our franchisees' experiences in operating the Business. Our standards and specifications may impose requirements for performance, reputation, quality, and appearance. Our Operations Manuals and other communications identify our standards and specifications and/or names of designated or approved suppliers. Standards and specifications are updated periodically at our sole determination.

*8.9 Vehicle Standards and Specifications*

If you enter into the Managing Operator Model, the Operating Entity will provide the Business with a service truck in accordance with our standards and specifications.



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If you enter into the Traditional Franchise Model, the initial vehicle must be leased or purchased through our then currently approved supplier(s). We also reserve the right to require that you purchase all additional vehicles through our approved supplier(s). 1-800 WATER DAMAGE Businesses will use vehicles for the Franchised Business that meet our design and operating specifications for model type, color, trademark representation, and appearance (no rust or body damage). These specifications are included in our Manuals. All vehicles purchased or leased for the Business are to be, and maintained, in a "good" condition as defined by KELLEY BLUE BOOK ("good" condition means that the vehicle is free of any major defects) and must include a global positioning system with continuous data communication service. The paint, body and interior must have only minor (if any) blemishes, and there may not be any major mechanical problems. In states where rust is a problem, this should be very minimal. All vehicles used in connection with the business are to be decaled as required by 1-800 WATER DAMAGE and the decals are to be free of defects. We reserve the right to require you to purchase a new service vehicle(s) if you are unable to maintain your vehicle in accordance with our standards.

*8.10 Computer Hardware and Software Components*

If you enter into the Managing Operator Model, the Operating Entity will provide the Business with all required computer hardware and software. All fees associated with the Computer System, WATER DAMAGE Software and POS System shall be deducted from the Business' Gross Sales as an Operating Expense.

If you enter into the Traditional Franchise Model, you will be required to purchase at your expense, the required computer hardware and software.

We shall have the right to specify or require the Business to update or upgrade the Business' computer hardware and software and specify that certain brands, types, makes, and/or models of communications, computer systems, and hardware be used by the Business, including without limitation: (i) a compatible "back office" computer system that complies with our standards and specifications; (ii) a custom and proprietary point of sale system (the "POS System") if we make such a POS System part of our proprietary operating system in the future; (iii) printers and other peripheral hardware or devices; (iv) archival back-up systems; (v) Internet access mode and speed; and (vi) physical, electronic, and other security systems (collectively, the "Computer System").

We shall have the right, but not the obligation, to develop or designate: (i) computer software programs you must use in connection with any component of the Computer System, including the WATER DAMAGE Software, which you shall install at your own expense; (ii) updates, supplements, modifications, or enhancements to the WATER DAMAGE Software, which you shall install at your own expense; (iii) the tangible media upon which you record data; and (iv) the database file structure of the Computer System.

*8.11 Revenues from Franchisee Purchases*

As we are a newly formed company, neither we nor our affiliates received revenues from required franchisee purchases and leases during the 2015 calendar year.



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For the Managing Operator Model, the Operating Entity will incur 100% of the costs associated with the Business, therefore we estimate that your cost of items purchased according to our specifications will be approximately 0% of the Business' overall purchases in establishing the business. We estimate that during the operation of the Business, 20-25% of the Operating Entity's total purchases will be required purchases in accordance with our specifications.

For the Traditional Franchise Model, We estimate that the cost of items purchased according to our specifications will be approximately 65% of your overall purchases in establishing the business and 20-25% of your total purchases during the operation of the business.

We reserve the right to mark up and earn a profit, or to otherwise derive revenue, from the products purchased from us or our approved or designated suppliers.

*8.12 Cooperatives*

As of the date of this offering, we do not have any purchasing or distribution cooperatives or vendor programs, but reserve the right to establish these cooperatives in the future.

*8.13 Advertising*

You must use our approved advertising and marketing materials or receive our written approval of any and all other advertising and marketing materials from us before their first use.

If you enter into the Managing Operator Model, all costs associated with advertising and marketing will be deducted as an Operating Expense.

## ITEM 9: FRANCHISEE'S OBLIGATIONS

### A. MANAGING OPERATOR MODEL

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

| Obligation | Section in Franchise Operator Agreement | Disclosure Document Item |
|---|---|---|
| a. Site selection and acquisition/lease | Section 4.4 | Items 11 |
| b. Pre-opening purchases/leases | Sections 13.2.2 | Items 8 |
| c. Site development and other pre-opening requirements | Sections 4.2, 4.3, 13.1, 13.2 | Items 7 and 11 |
| d. Initial and ongoing training | Sections 4.3 | Items 11 |



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| Obligation | Section in Franchise Operator Agreement | Disclosure Document Item |
|---|---|---|
| e. Opening | Sections 4.3 | Item 11 |
| f. Fees | Sections 3, 5.1, 5.2, 5.3, 5.4 | Items 1, 5, 6, 7 and 11 |
| g. Compliance with Standards and Policy | Sections 1.1, 4.1, 7.2, 7.3 | Items 8, 11 and 16 |
| h. Warranty and customer service requirements | Section 7.2, 7.3 | None |
| i. Trademarks and proprietary information | Sections 10 | Items 8, 13 and 14 |
| j. Restrictions on products/services offered | Sections 7.2, 7.3 | Items 8, 12 and 16 |
| k. Territorial development and sales quotas | Sections 1.7 | Item 12 |
| l. Ongoing product/service purchases | Section 5.4, 7.2 | Item 8 |
| m. Maintenance, appearance and remodeling requirements | Sections 5.4, 7.3.3 | Item 1 |
| n. Insurance | Sections 8 | Items 6 and 8 |
| o. Advertising | Sections 5.3 | Items 6, 8 and 11 |
| p. Indemnification | Section 18.1 | Items 6 and 13 |
| q. Owner's participation/ management/ staffing | Sections 1.1, 4.1, 11 | Items 11 and 15 |
| r. Records/reports | Sections 5.5 | Items 6, 11 |
| s. Inspections and audits | Section 12.2 | Item 6, 11 and 17 |
| t. Transfer | Section 14 | Items 6 and 17 |
| u. Renewal | Section 2.2 | Item 6 and 17 |
| v. Post-termination obligations | Sections 11.2, 15.6 | Item 17 |
| w. Non-competition covenants | Sections 11 | Item 17 |
| x. Dispute resolution | Section 16 | Item 17 |

## B. TRADITIONAL FRANCHISE MODEL



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

| Obligation | Section in Franchise Agreement | Disclosure Document Item |
|---|---|---|
| a. Site selection and acquisition/lease | Section 1.C and 3.A | Item 6 and 11 |
| b. Pre-opening purchases/leases | Sections 2.A and 2.B | Items 6, 7 and 8 |
| c. Site development and other pre-opening requirements | Sections 1.C and 3.A | Items 7 and 11 |
| d. Initial and ongoing training | Sections 1.B, 2.A, 3 and 12.B | Items 6, 7 and 11 |
| e. Opening | Sections 2 and 3 | Item 11 |
| f. Fees | Sections 2, 10.B, 11.D, 13.A, 15.C and 16 | Items 5, 6, 7 and 11 |
| g. Compliance with Standards and Policy | Sections 1.B, 2.G, 2.H, 3, 4.A and 7 | Items 8, 11, 13, and 16 |
| h. Warranty and customer service requirements | Section 7.A | None |
| i. Trademarks and proprietary information | Sections 4, 5, 6, 13. B and 13.C | Items 8, 13 and 14 |
| j. Restrictions on products/services offered | Sections 7, 1.B, 1.C | Items 8, 12 and 16 |
| k. Territorial development and sales quotas | Sections 1.D, 2.F and 2.G | Item 6 and 12 |
| l. Ongoing product/service purchases | Section 1.E and 2 | Item 8 |
| m. Maintenance, appearance and remodeling requirements | Sections 7 11.B and 11.C | None |
| n. Insurance | Sections 7.D, 12.B and 14.A | Items 6, 7, and 8 |
| o. Advertising | Sections 1.B, 1.C, 1.D, 2.G, 3.B and 7.A | Items 6, 8 and 11 |
| p. Indemnification | Section 14 | Items 6, 8 and 12 |
| q. Owner's participation/ management/ staffing | Sections 1, 7.A, 7.C and 8 | Items 11 and 15 |
| r. Records/reports | Sections 3.B, 7.A and 7.E | Item 6 and 11 |
| s. Inspections and audits | Section 8 | Item 6, 11 and 17 |
| t. Transfer | Section 10 | Items 6 and 17 |
| u. Renewal | Section 11 | Item 6 and 17 |
| v. Post-termination obligations | Sections 6 and 13 | Item 17 |
| w. Non-competition covenants | Sections 6 and 13.D | Item 17 |
| x. Dispute resolution | Section 15.F | Item 17 |



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| Obligation | Section in Franchise Agreement | Disclosure Document Item |
|---|---|---|
| y. Promissory Notes - Financing | Section 10.B | Item 10, 12 and 13 |

## ITEM 10: FINANCING

If you enter into the Managing Operator Model, the Operating Entity will provide all furniture, fixtures and equipment, supplies and inventory necessary to operate the Business, and will lease the office. We do not offer direct or indirect financing. We will not guarantee any note, leases or other obligation.

If you enter into the Traditional Franchise Model, we offer you financing for a portion of the Initial Franchise Fee if you meet our qualifications. The following table summarizes the financing we may offer you for Initial Franchise Fee.

| Source of Financing | Us |
|---|---|
| Amount Financed | Up to $10,000 of the Initial Franchise Fee |
| Down Payment | $69,900 |
| Term (number of years) | Up to two years |
| Rate of Interest plus Finance Charge | 8-10% |
| Monthly Payment | Varies depending on amount financed and term. |
| Prepayment Penalty | None |
| Security Required | Personal Guaranty |
| Guaranty | Personal Guaranty |
| Liability upon Default | Termination or other loss of Franchise; you must also pay entire amount due and our attorneys' fees and court costs in collecting debt |
| Loss of Legal Rights Upon Default | You must waive presentation for payment, demand, notice of non-payment, protest, and all other demands and notices required by law (statutory or otherwise) |

If you would like to finance a portion of the Initial Franchise Fee, and you meet our credit standards, you may do so through a promissory note (the "Note"), which is currently attached as Exhibit E to the Franchise Agreement. You must make a down payment of at least $69,000. We are currently offering an APR of 8%, but reserve the right to adjust the APR being offered up to 10%. We will not adjust APR of the Note once your Franchise Agreement has been signed. A late fee of 5% or $50, per week, whichever sum is greater, will be collected if you fail to make timely payments or your payments are returned to us with non-sufficient funds. The only security we require is a personal guaranty of the Note by you and by all the owners, as well as all respective spouses, of the company.

The term of the Note will be 12 months or 24 months, as agreed between you and WATER DAMAGE. You may prepay the Note without penalty at any time during its term. If



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you fail to make any payment, we can call the Note and demand immediate payment of the full outstanding balance. We can also terminate your Franchise Agreement if you fail to make payments as agreed; however, before your Franchise Agreement can be terminated, you will receive a notice of default and have a ten-day period to cure the default. The Note shall survive termination of the Franchise Agreement.

Additionally, there is a potential source of financing for your vehicle available through Trans Lease, but you are not required to finance your vehicle through Trans Lease. Trans Lease may offer you financing for your vehicle if you meet their qualifications. The following table summarizes the financing they may offer you for the purchase of your vehicle.

| **Source of Financing** | **Trans Lease** |
|---|---|
| Amount Financed | $78,400 |
| Down Payment | $11,700 |
| Term (number of months) | 48, 60, or 72 months. See Note 1. |
| Rate of Interest plus Finance Charge | 7.75% - 8.25% |
| Monthly Payment | See Note 1. |
| Prepayment Penalty | 3% per year remaining on the unpaid principal balance from the start date through 50% of the term of the loan agreement |
| Security Required | Security deposit of $11,700 |
| Guaranty | Personal Guaranty |
| Liability upon Default | See Note 2 |
| Loss of Legal Rights Upon Default | Trans Lease may take possession of vehicle and you will lose all rights in the vehicle; you must waive your right to a hearing before Trans Lease takes possession. |

Note 1: The term of the loan offered by Trans Lease will be either 48, 60, or 72 months, depending on the option that you select. Your monthly payments will range from $1,131.28 to $1,346.48.

Note 2: In the event you fail to pay rental payments within ten days after the date such payment is due, Trans Lease may, without declaring you to be in default, charge you an amount equal to five percent of past due amounts or the maximum allowed by law. In addition, Trans Lease may collect from you a fee for dishonored checks in an amount not to exceed $40 or the maximum amount permitted by applicable law, and Trans Lease may pursue any other right or remedy to statute with respect to dishonored checks. This will not affect Trans Lease's rights to additionally or subsequently declare you to be in default and to seek other available remedies, including all other amounts due. You will also be responsible for liquidated damages. We also suggest third party sources for lending including, but not limited to FranFund, Benetrends and Directed Equity. As of the date of this Disclosure Document, all of these sources are willing to work with prospective WATER DAMAGE franchisees.



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Other than described above, we will not guarantee any notes, leases or obligation. We and our affiliates have no past practice or future intent of selling, assigning or discounting franchisees' financing arrangements to a third party, although we reserve the right to do so in the future. We and our affiliates do not receive any direct or indirect payments or any other consideration from any person for the placement of financing with the lender; however, we reserve the right to do so in the future.

## ITEM 11: FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

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

*11.1.A Pre-Opening Obligations- Managing Operator Model*

Before the Business opens, we, WDNA, the Operating Entity or our designee will provide the following assistance:

1. Designate the Territory for the Business. (Section 13.1.1 of the Franchise Operator Agreement)
2. Approve the Office. (Section 4.4 of the Franchise Operator Agreement).
3. Loan to you a copy of our Operations Manuals and other proprietary materials as we may publish and distribute to you periodically. (Section 13.1.2 of the Franchise Operator Agreement)
4. Give prior approval for use of business forms, business stationery, business cards, advertising materials, permanent materials, and forms that you intend to use; the cost of the materials shall be deducted as an Operating Expense. We will continue to do this after you open the Franchised Business. (Section 13.1.3 of the Franchise Operator Agreement).
5. Give prior approval, at our sole discretion, to all marketing, advertising, and promotional material prepared by you within ten days of our receipt of the proposed materials for Franchises which differ from materials we provide. We will continue to do this after you open the Franchised Business. (Section 13.1.4 of the Franchise Operator Agreement)
6. Provide you with an Initial Training Program at no additional fee or other charge. (Section 13.1.5 of the Franchise Operator Agreement)

Before you open your Franchised Business, the Operating Entity will provide the following assistance, the expenses of which shall be deducted from the Business' Gross Sales as Operating Expenses:

1. Once we approve the Office, the Operating Entity shall negotiate the lease or purchase of the Office, conform the Office to local ordinances and codes and obtain any required permits. (Section 13.2.1 of the Franchise Operator Agreement). The Office will comprise approximately 1,200 – 1,500 sq. ft. of space and will include commercial office space with a garage to store the service van. You are responsible for identifying potential locations within the Territory which meet our site selection criteria as stated in the Manual. In the event that you purchase multiple territories, we may, in our sole discretion, allow you to operate from a single Office, provided that the Office is centrally



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located to both territories. In the event that you purchase four territories, an additional Office will be required.

2. Provide and install all equipment, including a vehicle, office furniture, marketing materials, trademarked apparel, initial cleaning products, trademarked supplies, and owner uniforms necessary to operate the Business. (Section 13.2.2 of the Franchise Operator Agreement)

3. Provide insurance coverage for the Business. (Section 13.2.3 of the Franchise Operator Agreement). If you enter into a ROBS Addendum, you must provide insurance coverage for the C Corp.

4. Establish a bank account for the Business. (Section 13.2.5 of the Franchise Operator Agreement). If you enter into a ROBS Addendum, you must establish a bank account for the C Corp.

*11.1.B Pre-Opening Obligations- Traditional Franchise Model*

Before you open your Business, we will:

1. Designate the Territory for the Business (Sections 1.B and 1.C, and Exhibit A of the Franchise Agreement). We do not provide any assistance with (a) selecting a business site or negotiation of any lease or purchase of any site, (b) conforming the site to local ordinances and codes and obtaining any required permits, or (c) hiring and training employees (other than the required training discussed in Section 3.A of the Franchise Agreement). Your Office must be located within the Territory and must contain a minimum of 1,200 – 1,500 sq. ft. of space and will include office space with a garage to store the service van. Provided the office site meets the criteria described in this section, no further approval is required from us. (Section 3.A of the Franchise Agreement).

2. Provide to you an Initial Package that includes equipment packages, marketing materials, trademarked supplies and apparel as listed in Exhibit B of the Franchise Agreement (Section 2.B of the Franchise Agreement). The items in the Initial Package are provided by us and by designated suppliers named by us. We do not deliver or install any of these items. You must pay all shipping and taxes.

3. Loan to you a copy of our copyrighted Manuals, and other proprietary materials or manuals as we may publish and distribute to you periodically (Section 3 of the Franchise Agreement).

4. Give prior approval for use of business forms, business stationery, business cards, advertising materials, permanent materials, and forms that you intend to use (Section 4.C of the Franchise Agreement). We will continue to do this after you

5. Give prior approval to all marketing, advertising, and promotional materials prepared by you within ten days of our receipt of the proposed materials for Franchises (Section 4.C and Section 7.A of the Franchise Agreement). We will continue to do this after you open the Franchised Business.

6. Specify minimum policy limits for certain types of insurance coverage (Section 7.D of the Franchise Agreement). We will continue to do this after you open the Business.



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Provide the Initial Training Program to (a) the Managing Owner, if he or she is managing the Business, (b) the Designated Manager, if applicable, and (c) one other person, at no additional fee or other charge (Section 3.A of the Franchise Agreement).

*11.2 Franchisor's Obligations after the Opening of the Franchised Business*

Once the WATER DAMAGE Business has commenced operations, we, WDNA, the Operating Entity or our designee will provide the following assistance:

1. Provide new products, services and methods that we may have discovered or have developed for the System. (Section 13.1.7 of the Franchise Operator Agreement or Sections 3 and 7 of the Franchise Agreement).

2. Formulate and implement marketing, advertising, and promotional programs, including the National Advertising Fund, using the merchandising, advertising, and research data and advice as we may, periodically, develop for use in your local market. (Section 13.1.8 of the Franchise Operator Agreement or Sections 3 and 7 of the Franchise Agreement).

3. Provide you with other business and marketing advice. (Section 13.1.9 of the Franchise Operator Agreement or Sections 3 and 7 of the Franchise Agreement).

4. Provide support for our WATER DAMAGE Software in consideration of the Technology Fee. (Section 13.1.10 of the Franchise Operator Agreement or Section 3.B.6 of the Franchise Agreement).

5. Provide support on financial and daily operation of the Franchised Business including its accounting and record keeping functions (Section 13.1.5 of the Franchise Operator Agreement or Section 3 and 7 of the Franchise Agreement).

6. Maintain a 24-hour call-in center and distribute leads, in our sole discretion, to Franchisees and Managing Operators for customers and service locations within the Territory. (Section 13.1.11 of the Franchise Operator Agreement or Section 1.H of the Franchise Agreement).

7. Provide periodic modifications to the Operations Manuals to reflect changes in the System standards. (Section 13.1.12 of the Franchise Operator Agreement or Section 3.E and Section 7.B of the Franchise Agreement).

8. Provide periodic refresher training courses and conferences, not to exceed one per year. (Section 13.1.13 of the Franchise Operator Agreement or Section 3.A of the Franchise Agreement).

9. If you enter into the Managing Operator Model, we, WDNA, the Operating Entity or our designee will establish and administer a program for collecting and accounting for the sales receipts of the Business and paying from the Business' Gross Sales all Operating Expenses connected with the operation of the Business, including employee salaries, rent for the Office, National Advertising Fund contributions, insurance premiums, and all other expenses incurred in



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the operation of the Business and provide you with monthly unaudited financial statements of the Business in consideration of the payment of the Management Fee. (Section 13.1.6 of the Franchise Operator Agreement). Once the WATER DAMAGE Business has commenced operations, the Operating Entity will provide ongoing materials, supplies, equipment, inventory and products for the ongoing operation of the Business, the expenses of which shall be deducted as an Operating Expense. (Section 13.2.6 of the Franchise Operator Agreement)

*11.3 Typical Length of Time to Open the WATER DAMAGE Business*

The typical length of time between the signing of the Agreement and payment of any consideration for the WATER DAMAGE Business and the opening of the Franchised Business is between 60 and 90 days. Factors affecting this length of time usually include normal business startup considerations, completion of the Initial Training Program, the vehicle delivery date and securing the Business' Office within the Territory.

If you enter into the Managing Operator Model, you must commence operation of the Business within three (3) months of signing the Agreement. Your failure to do so will be deemed a breach of the Agreement. (Section 4.5 of the Franchise Operator Agreement) Provided that this three month period shall be reasonable extended in the event that the actions or omissions of the Operating Entity result in a delay in securing an Office or supplying equipment to the Business.

If you enter into the Traditional Franchise Model, you must commence operation of the 1-800 WATER DAMAGE Business within four (4) months of signing this Agreement and/or two (2) months following your successful completion of the Initial Training, whichever is later. In the event that you do not do so, in our discretion, we may terminate this Agreement pursuant to Section 12 of the Franchise Agreement.

*11.4.A Local Marketing and Advertising - Managing Operator Model*

We may require the Business to spend an amount of up to 5% of the Business's Gross Sales
per month to satisfy the Local Advertising Contribution. The Local Advertising Contribution shall decrease to 2.5% between years six and ten of the term of the Franchise Operator Agreement. You will work with us to best determine the most effective allocation of the Local Advertising Contribution. The Local Advertising Contribution shall be deducted from the Business' Gross Sales as an Operating Expense. (Section 5.3.2 of the Franchise Operator Agreement)

All advertising must be approved by us in writing according to the procedure described in the next paragraph. You must use our approved advertising and marketing materials or receive our written approval of any and all other advertising and marketing materials from us before their first use. In order to obtain approval of advertising and marketing materials, you must submit such proposed advertising material to us for review at least ten business days before the proposed first use. If we take no action within such ten business day period, the materials shall



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be deemed disapproved and you may not use such materials. The approval or disapproval is at our sole discretion. We also may, at our sole discretion, require you to immediately discontinue use of any advertising or marketing materials at any time, even if previously approved or provided by us. All advertising and marketing materials used by the Business must meet our then-current standards and specifications. You acknowledge and agree that the Local Advertising Contribution must be expended regardless of the amount(s) spent by other existing System franchisees and Franchise Managing Operators on local advertising. (Section 5.3.3 of the Franchise Operator Agreement).

*11.4.A Local Marketing and Advertising - Traditional Franchise Model*

We require the Business to spend a minimum of 3% of the Business's Gross Sales per month on marketing, advertising and promotional programs at the local level (the "Local Marketing Requirement"), but recommend that you spend amounts in excess of 3% on marketing and advertising at the local level. You will work with us to best determine the most effective allocation of the Local Advertising Contribution. (Section 2.G of the Franchise Agreement)

*11.5 National Marketing Fund, Advertising Cooperative and Advertising Counsel*

In addition, we have established a national marketing fund (previously defined as the "National Marketing Fund") for the common benefit of existing System franchisees and Franchise Managing Operators. If you enter into the Managing Operator Model, the Operating Entity must participate in and contribute 1% of its Gross Sales during the Business' first and second year and 2% of its monthly Gross Sales during the remaining term of the Franchise Operator Agreement to the National Marketing Fund in the manner we prescribe. National Marketing Fund contribution shall be deducted from the Business' Gross Sales as an Operating Expense. We or our designee will deduct National Marketing Fund contributions directly from the Operating Entity's bank account. If you enter into the Traditional Franchise Model, you must participate in and contribute 2% of the Business' Gross Sales on a monthly basis throughout the term of the Agreement. We have the right to require that any advertising cooperative or franchisee advisory or advertising council be formed, changed, dissolved or merged. (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement). Currently, there is no advertising council associated with the WATER DAMAGE System.

We will use the National Marketing Fund contributions, in our sole discretion, to develop, produce and distribute national, regional and/or local advertising and to create advertising materials and public relations programs which promote, in our sole judgment, the services offered by existing System franchisees, Franchisees and Franchise Managing Operators. We shall have the sole right to determine contributions and expenditures from the National Marketing Fund, or any other advertising program, and the sole authority to determine, without limitation, the selection of the advertising materials and programs; provided, however, that we will make a good faith effort to expend National Marketing Fund contributions in the general best interests of the System on a national or regional basis. We may use the National Marketing Fund to satisfy any and all costs of maintaining, administering, directing, preparing, producing, and implementing advertising, including the cost of: (i) preparing, producing, and implementing television, radio, magazine and newspaper advertising campaigns; (ii) direct mail and outdoor



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billboard advertising; (iii) public relations activities and advertising agencies; (iv) developing and maintaining an Internet website; and (v) personnel and other departmental costs for advertising that we internally administer or prepare. Nevertheless, you acknowledge that not all existing System franchisees, and Franchise Managing Operators will benefit directly or on a pro rata basis from such expenditures. While we do not anticipate that any part of the National Marketing Fund contributions will be used for advertising which is principally a solicitation for Traditional Franchise and Managing Operator businesses, we reserve the right to use the National Marketing Fund for public relations or recognition of the "1 800 WATER DAMAGE®" brand, for the creation and maintenance of a web site, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement)

We may periodically assist franchisees and operators to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the National Marketing Fund. (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement)

We have the right to reimburse ourselves from the National Marketing Fund contributions for such reasonable costs and overhead, if any, that we may incur in activities reasonably related to the direction and implementation of the National Marketing Fund. (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement )

Outlets owned by us or our affiliates are not required to contribute to the National Marketing Fund. We may, but are not obligated to, advance money to the National Marketing Fund to fund National Marketing Fund programs. In the event that we advance monies to the National Marketing Fund, we will determine, in our sole discretion, the manner and timing for the repayment, to us, of some, or all, of the funds we advance. (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement )

We will prepare on an annual basis, within 120 days of the end of the fiscal year, and make available to you upon written request, a statement of contributions and expenditures for the National Marketing Fund. The National Marketing Fund does not have to be independently audited. (Section 5.3.1 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement)

We have the right to require that advertising cooperatives be formed, changed, dissolved or merged. Currently, you are not required to participate in any local or regional advertising cooperative. (Section 5.3.1 and 5.3.4 of the Franchise Operator Agreement or Section 2.G of the Franchise Agreement).

Other than the advertising requirements described above, there are no additional advertising fees required by us. It is at our discretion to determine how much to spend, and where to market, advertise and promote the WATER DAMAGE System.

*11.6 Computer Software and Systems.*



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We have developed the WATER DAMAGE franchise software management system (the "WATER DAMAGE Software"), which consists of software program(s) which you must use to maintain customer records, bid on jobs, create estimates and operate the WATER DAMAGE Business. We will provide you with the WATER DAMAGE Software for use in the operation of the WATER DAMAGE Business. As part of the WATER DAMAGE Software, we currently provide XactAnalysis. There will be a transaction fee of $15 per estimate uploaded in XactAnalysis. If you enter into a Traditional Franchise Model, you are responsible for the transaction fee. If you enter into the Managing Operator Model, the transaction fee will be deducted as an operating expense. If you enter into a Traditional Franchise Model, you, or if you enter into the Managing Operator Model, the Operating Entity, will obtain for your use a computer with the following these specifications: Windows 8 Professional (or higher) and MS Office 2013 Pro (or higher) capabilities, four GB Memory (RAM) or more, one GB free hard disk space, a 17" (or larger) XGA Monitor (capable of 1024 x 768 resolution or higher), a USB memory key, antivirus software, a laser printer, and an uninterruptible power supply. (Section 4.6 of the Franchise Operator Agreement or Section 2.H of the Franchise Agreement). If you enter into the Traditional Franchise Model, we estimate the cost to purchase the Computer System to be $2,875. If you enter into the Managing Operator Model, the cost of the Computer System and software will be deducted as an Operating Expense. The computer is the Operating Entity's property.

We have the right to access the Computer System, the data in it, and the reports it generates at any time. We can do this electronically and/or at your business. (Section 4.6 of the Franchise Operator Agreement or Section 2.H of the Franchise Agreement). The Agreement does not impose a limit as to what data we may access or how we may use the data.

We or our affiliates will provide all Software and software upgrades and updates necessary to operate the Business at no additional cost to you. In consideration of these services, the Business shall pay us a monthly technology fee equal to 1% of the Business' Gross Sales (the "Technology Fee").

If you enter into the Traditional Model Franchise, neither we, nor any affiliate or third party is obligated to provide ongoing maintenance, repairs, upgrades or updates to the Computer System. We currently do not require that you purchase a maintenance, repair, upgrade or update service contract for the Computer System, but we reserve the right to do so in the future. We do not provide support or warranties for hardware or third party software; any support or warranties are provided solely by the manufacturer.

If you enter into the Managing Operator Model, the Operating Entity will also provide you with DSL, cable, or satellite high-speed Internet connection and electronic mail (referred to as "e-mail") network account with independent supplier. As technology advances and new discoveries are made, we have the right to update and upgrade the technological items and designate the specific companies, models and/or types that are required for use in the WATER DAMAGE Business. We may require the Operating Entity to upgrade computer hardware, but no more than two times during the initial term, at a cost not to exceed $3,000.

If you enter into the Traditional Franchise Model, you promise to subscribe to, maintain, and utilize a DSL, cable or satellite high-speed Internet connection and electronic mail (referred



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to as "e-mail") network account with independent supplier. As technology advances and new discoveries are made, we have the right to update and upgrade the technological items and designate the specific companies, models and/or types that are required for use in the WATER DAMAGE Business. We may require you to upgrade computer hardware, but no more than two times during the initial term, at a cost not to exceed $3,000. You must also utilize at your expense QuickBooks Online Accounting Software and maintain our specified Chart of Accounts. QuickBooks Online generally costs between $19 and $28 per month.

We will provide you with an email address that will have, as its suffix, "@1800waterdamage.com." Emails sent to you at 1800waterdamage.com will be automatically forwarded to you at your electronic mail account.

*11.7 Telephone Listings*

If you enter into the Managing Operator Model, we will acquire and maintain a landline telephone number that is dedicated to the Business, which will have a local area code that is assigned to the Territory.

If you enter into the Traditional Franchise Model, you must acquire and maintain a landline telephone number that is dedicated to the Business, which will have a local area code that is assigned to the Territory.

*11.8 Operations Manuals*

| Topic | Number of Pages |
|---|---|
| **1-800 WATER DAMAGE OPERATIONS MANUALS** | |
| Introduction | 6 |
| Office Setup | 6 |
| Communication Guidelines | 16 |
| Record Keeping and Reports | 6 |
| Processing a Job | 9 |
| Pricing and Invoicing | 3 |
| 1-800 WATER DAMAGE Service Vehicles | 2 |
| Uniforms | 2 |
| Insurance | 3 |
| Payroll Administration | 1 |
| A Day in the Life | 2 |
| Total Number of Pages | 56 |



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| Topic | Number of Pages |
|---|---|
| SAFETY MANUAL | |
| Respiratory Protection | 8 |
| Personal Protection Equipment | 1 |
| Ladders | 3 |
| Scaffolding | 2 |
| Compressor Safety | 1 |
| Electrical | 4 |
| Confined Space | 2 |
| Hazard Communication | 3 |
| Medical / First Aid / General | 2 |
| Total Number of Pages | 26 |

*11.9 Jumpstart and Initial Training*

The Jumpstart program is our preparation program that includes numerous pre-opening activities ("Jumpstart"). Jumpstart is a self-guided process, with additional guidance from our training team, along with the Operations Manuals. You must review the Operations Manuals, complete a Territory review and coordinate your initial advertising program. All Jumpstart activities are to be completed before attending initial training and before the opening of the Franchised Business and are to be conducted in your hometown by you with assistance from our home office staff. You shall begin Jumpstart immediately upon your signing and returning to us the Agreement and all initial fees. All costs associated with Jumpstart are included in the Initial Fee. During Jumpstart, we will schedule initial training (the "Initial Training") for you to attend at a later time. Initial Training sessions are typically offered each month. (Section 4.3 of the Franchise Operator Agreement or Section 3.A of the Franchise Agreement)

Before you begin operating the Business and after you have completed Jumpstart, we will provide our Initial Training to you at no additional fee. If you enter into the Managing Operator Model, you must complete the Initial Training to our satisfaction within three months of signing the Franchise Operator Agreement, in the Traditional Franchise Model, you must complete the Initial Training to our satisfaction within four months of signing the Franchise Agreement, and failure to do so will result in the termination of the Agreement. The Initial Training may not commence until you have paid all fees due to us. (Section 4.3 of the Franchise Operator Agreement or Section 3.A of the Franchise Agreement)

The Initial Training will last up to 17 days in duration at our headquarters or another location designated by us. If you enter into the Managing Operator Model, we will be responsible for all travel and living expenses for the Initial Training. On training days, we will provide breakfast and lunch for you and any other employees of the Operating Entity that attend. We will reimburse you for any reasonable dining expenses up to $30.00 per day, if a meal is not already being provided by us (Section 4.3 of the Franchise Operator Agreement). If you enter



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into the Traditional Franchise Model, you will be responsible for all travel and living expenses that you and your employees/owners incur for this Initial Training (Section 3.A of the Franchise Agreement).

In the event that you own multiple WATER DAMAGE Businesses and have already completed the Initial Training, you will still be required to successfully complete the most recent online training modules essential to the role of ownership. There is no charge for this training.

You may designate, with our approval and on a "space available" basis, additional persons to attend other sessions of the Initial Training. In the Managing Operator Model, all costs associated with the additional persons attendance will be incurred by the Operating Entity as an Operating Expense, in the Traditional Franchise Model, you will be responsible for all costs associated with the additional persons attendance, the training costs payable to us is currently $25 per additional person per day. In addition, each person we approve to attend the Initial Training Program will be required to sign our then current confidentiality and non-compete agreement before the start of Initial Training.

Ted Foster directs the technical operations portion of the Initial Training. Derek Niederquell and Ryan McLaughlin direct our business manager portion of the Initial Training. Ted Forster, Derek Niederquell and Ryan McLaughlin's years of experience with us and in the franchise, commercial cleaning and sales industries are listed below, along with our other primary instructors:

| Training Instructor | Years of Experience in Commercial Cleaning, Sales and/or Franchising Industries | Years of Experience with us or Affiliates |
|---|---|---|
| Ted Foster, CR, XCT | 40 | 4.5 |
| Chuck Kelley | 6 | 4 |
| Darren Foote | 25 | 9 |
| Cara Driscoll | 22 | 1.5 |
| Ryan McLaughlin | 21 | 11 |
| Derek Niederquell | 17 | 3 |
| Janet Hughes | 12 | 8.5 |
| David Dudley | 1.5 | 7 |
| Darleen Weaver | 1.5 | 16 |
| Kristina Bossingham | 1 | 5.5 |

Training modules cover:

- Marketing, public relations, and relationship and direct selling techniques to build the customer base;
- The WATER DAMAGE system for water damage restoration services, carpet cleaning, mold remediation, odor removal and related cleaning

  and
- Administrative activities including use of the WATER DAMAGE Business Operating and Support System.



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Listed below are the specific modules and details of the Initial Training. We reserve the right to modify the Initial Training Program, including the training materials and subjects at any time.

**INITIAL TRAINING PROGRAM**
**Business**

| Subject | Hours of Classroom Training* | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Sales | 6 hours 30 minutes | - | Ann Arbor, MI |
| Third party administrators | 1 hour 25 minutes | - | Ann Arbor, MI |
| Marketing | 3 hours 35 minutes | - | Ann Arbor, MI |
| Technology | 4 hours 30 minutes | - | Ann Arbor, MI |
| Accounting | 2 hours 40 minutes | - | Ann Arbor, MI |
| Billing | 2 hours | - | Ann Arbor, MI |
| Human Resources | 1 hour | - | Ann Arbor, MI |
| Legal Administration | 1 hour | - | Ann Arbor, MI |
| Franchise Support | 1 hour | - | Ann Arbor, MI |

*Does not include meals, breaks, etc.

**Technical**

| Subject | Hours of Classroom Training* | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Documenting the job site – Forms and photos. | 4 hours | - | Ann Arbor, MI |
| Xactimate Fundamentals – Using the estimating software. | 12 hours | - | Ann Arbor, MI |
| Xactimate Estimating 101 – Estimate formatting and items to include. | 12 hours | - | Ann Arbor, MI |
| Xactimate Estimate Formatting – Format consistency | 4 hours | - | Ann Arbor, MI |
| IICRC WRT class – Water technical training for extraction and drying. | 24 hours | - | Ann Arbor, MI |
| Mold Remediation – Containment and proper remediation of mold. | 16 hours | - | Ann Arbor, MI |



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| Subject | Hours of Classroom Training* | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Carpet Cleaning & Truck Mounts | 16 hours | - | Ann Arbor, MI |
| Smoke and Odor | 14 hours | - | Ann Arbor, MI |
| RRP | 8 hours | - | Ann Arbor, MI |
| Total | 134 hours (17 days) | - | |

*Does not include meals, breaks, etc.

*11.10 Account Transition and Observation Training*

Upon your successful completion of training, we may, at our discretion, require a transitional period of approximately 90 days ("Transitional Period"), in which you and or your Service Technician will have the opportunity to observe a customer service call for customer locations within your Territory which exceed your current level of experience and expertise. Depending on the scope of work, we reserve the right to refer any jobs within your Territory to a neighboring franchisee, Franchise managing operator or us or affiliate owned location during the Transitional Period and require you to attend such service calls. In certain situations, neither you nor the Business will receive any compensation or proceeds from attending such service calls during the Transitional Period. We reserve the right to extend the 90 day Transitional Period at our sole discretion. (Section 1.2.4 of the Franchise Operator Agreement or Section 1.C of the Franchise Agreement)

*11.11 Additional Training*

You must attend the WATER DAMAGE Annual Convention every year. You also must attend periodic refresher training courses and conferences, not to exceed one convention/conference per year, at the times and locations we determine, and for which we may charge fees. This training may, at our option, be online. We will determine the duration, curriculum, and/or location of any online or other training. If you enter into the Traditional Franchise Model, you will be responsible for all travel and living expenses that are incurred by you while attending such additional courses, conferences, and sessions (Section 3.A of the Franchise Agreement). If you enter into the Managing Operator Model, such costs will be deducted as an Operating Expense. (Section 4.3 of the Franchise Operator Agreement)

The Business' service technicians may be required to attend periodic refresher training courses and conferences, not to exceed one session per year, at the times and locations we determine, and for which we may charge a fee. If you enter into the Traditional Franchise Model, you will be responsible to pay the fee. If you enter into the Managing Operator Model, the fee will be deducted as an Operating Expense. This training may, at our option, be online. We will determine the duration, curriculum, and/or location of any online or other training. You are responsible for training any additional or replacement service technicians. (Section 4.3)



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*11.12 Accounting and Financial Reporting*

We currently require you utilize QuickBooks Online Accounting Software and maintain our specified Chart of Accounts. You shall maintain records in accordance with our standards and specifications, and you must submit statements in the form we prescribe on a monthly basis. Statements must be submitted to us by the 15th of the following month for which the statement applies. If you enter into the Traditional Franchise Model, you are also required to submit your corporate tax returns to us no later than 90 days after the end of the corporate fiscal year. You may not utilize any other accounting or reporting software that is not approved by us.

## ITEM 12: TERRITORY

*12.1 The Territory*

You will operate the Business from a location within the Territory that we approve and that will be identified in the Agreement. The size of the Territory will generally consist of 350,000 people, and will be defined using political boundaries, such as county or city boundaries, or zip code boundaries, which are subject to change. These changes are outside of our control.

If you enter into the Managing Operator Model, the Operating Entity will lease the Office of the Business. If you enter into the Traditional Franchise Model, you will be responsible to lease the Office for the Business. The Office will comprise approximately 1,200 – 1,500 sq. ft. of space and will include office space with a garage to store the service van. In the Traditional Model, the Franchisee or in the Managing Operator Model, the Operating Entity, may relocate the Office within the Territory at its sole discretion. We will not alter the Territory during the term of the Agreement and any renewal agreements without your prior written consent.

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

You may only market and solicit to residential or commercial customers for the Services offered by the Business that are located within the Territory. Except as provided below, you may not market, advertise or solicit in any way, any residential or commercial customer or customer service location outside of the Territory, without our prior written consent. Subject to our rights under Section 12.5 below, you may market to and/or solicit insurance providers, third-party administrators, and property managers located outside of the Territory, provided that the insurance providers' customers or the customer service locations are located within the Territory.

If you advertise or solicit customers or customer service locations outside of the Territory without our prior written consent, you must pay us a fee equal to the greater of $500 or the cost of job for each incident of unauthorized advertising (the "Improper Marketing Fee"). If you enter into the Managing Operator Model, the Improper Marketing Service Fee will be deducted from the Operator Profit. If you enter into the Traditional Franchise Model, you are responsible to pay us the fee. This fee is in addition to, and not in lieu of, any other rights we have under the Franchise Operator Agreement.



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You may perform services for customers or service locations within the Territory. You may also perform services for customers or service locations outside of the Territory if the customer located within your Territory initiates the request or if we refer the customer to you. You acknowledge and agree that other existing System franchisees, Franchisees, Managing Operators and company owned business may service customers or service locations within your Territory.

All sales and other activities conducted within or outside the Territory must be conducted in accordance with the terms of the Agreement and our operating methods, standards and specifications as set forth in the Operations Manuals. Managing Operator or Franchisee is required to enter all work performed in the WATER DAMAGE Software within 24 hours of the start of the job. If you enter into the Traditional Franchise Model, you are required to invoice the customer for all work performed within 24 hours of the completion of the job.

At your option, you may subcontract the provision of Services to another System franchisee, Company owned business or Franchise Managing Operator. In the event you subcontract work, you shall pay the franchisee, Company owned business or Franchise Managing Operator the stated rates we establish, as they may be revised, as listed on our Intranet site.

Additionally, if you choose not to service a customer or service location within or outside of the Territory, you must refer us the lead and we will select another System franchisee, company owned business, or Franchise Managing Operator to perform the work with no further obligations to you, financial or otherwise.

The Agreement does not contain any provisions under which you might receive any options, rights of first refusal or similar rights to acquire additional franchises within the Territory or in any contiguous areas.

*12.2 Relocation*

You may not relocate the Office without our prior written consent, which we may grant or withhold at our sole discretion.

*12.3.A Minimum Gross Sales Requirement and Minimum Management Fee Requirement – Managing Operator Model*

Beginning in the Business' second year of operations, the Business will be required to meet the following minimum Gross Sales requirements (the "Minimum Gross Sales Requirement") during the term of the Agreement:

| Year in Operation | Minimum Gross Sales Requirement |
|---|---|
| Year Two | $225,000 annually; $18,750 per month |
| Year Three | $475,000 annually; $39,583 per month |
| Year Four | $725,000 annually; $60,417 per month |
| Year Five and beyond | $975,000 annually; $81,250 per month |



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"Gross Sales" is defined as all revenue generated from operating the Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise.

The Minimum Gross Sales Requirement is a threshold of Gross Sales that the Business must achieve and is not a representation of the Business's future financial performance.

Additionally, beginning in the Business' second year of operations, the Business must pay us the following minimum Management Fees and Technology Fees (collectively, the "Minimum Management Fee Requirement"):

| Year in Operation | Minimum Management Fee Requirement |
|---|---|
| Year Two | $22,500 annually; $1,875 per month |
| Year Three | $57,000 annually; $4,750 per month |
| Year Four | $87,000 annually; $7,250 per month |
| Year Five and beyond | $117,000 annually; $9,750 per month |

If the Business fails to achieve the required Gross Sales Requirement and/or the Minimum Management Fee Requirement during any consecutive three month period, we may terminate the Agreement, elect to establish another franchisee, Managing Operator or Company owned business in the Territory or allow other franchisees, Managing Operators and/or Company owned business to advertise, solicit and service customers in the territory.

If you execute more than one Agreement with us for additional territory, you will be required to meet the Gross Sales Requirement and/or the Minimum Management Fee Requirement for each individual Agreement.

*12.3.B Minimum Gross Sales Requirement and Minimum Management Fee Requirement – Traditional Franchise Model*

Beginning in the Business' second year of operations, the Business will be required to meet the following minimum Gross Sales requirements (the "Minimum Gross Sales Requirement") during the term of the Agreement:

| Year in Operation | Minimum Gross Sales Requirement |
|---|---|
| Year Two | $225,000 annually; $18,750 per month |
| Year Three | $475,000 annually; $39,583 per month |
| Year Four | $725,000 annually; $60,417 per month |
| Year Five and beyond | $975,000 annually; $81,250 per month |

"Gross Sales" is defined as all revenue generated from operating the Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise.



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The Minimum Gross Sales Requirement is a threshold of Gross Sales that the Business must achieve and is not a representation of the Business's future financial performance.

Additionally, beginning in the Business' second year of operations, the Business must pay us the following minimum Management Fees and Technology Fees (collectively, the "Minimum Management Fee Requirement"):

| Year in Operation | Minimum Management Fee Requirement |
|---|---|
| Year Two | $24,750 annually; $2,063 per month |
| Year Three | $52,250 annually; $4,354 per month |
| Year Four | $79,750 annually; $6,646 per month |
| Year Five and beyond | $107,250 annually; $8,938 per month |

If the Business fails to achieve the required Gross Sales Requirement and/or the Minimum Management Fee Requirement during any consecutive three month period, we may terminate the Agreement, elect to establish another franchisee, Franchise Managing Operator or Company owned business in the Territory or allow other franchisees, Franchise Managing Operators and/or Company owned business to advertise, solicit and service customers in the territory.

If you execute more than one Franchise Operator Agreement with us for additional territory, you will be required to meet the Gross Sales Requirement and/or the Minimum Management Fee Requirement for each individual Franchise Operator Agreement.

*12.4 Our Rights within the Territory*

Provided that the Business has met the Minimum Gross Sales Requirement and the Minimum Management Fee Requirement described in Section 12.3 above, during the term of the Franchise Operator Agreement, we will not establish nor license anyone else to establish another WATER DAMAGE business at any location within the Territory.

In the event of national, regional or local catastrophic event, significant weather event, or any single large loss project (each a "Major Event") within or outside of your Territory, we and our affiliates shall have the sole right to direct and control the provision of Services. You understand and agree that upon a Major Event, we, our affiliates, other existing System franchisees and Franchise Managing Operators will be authorized to perform Services within the Territory and neither you nor the Business will be entitled to any proceeds from the provision of Services performed by third parties within your Territory. Additionally, upon a Major Event, we may require you and other existing System franchisees and Franchise Managing Operators to mobilize or dispatch technicians and equipment and supplies to any site or sites, regardless of the distance from the Business' territory.



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We and our affiliates retain the right to sell products and services under the Marks within and outside your Territory through any method of distribution, including, but not limited to, selling products and services under the Marks through the Internet, catalog sales, telemarketing, or other direct marketing sales (collectively, the "Alternative Distribution Channels"). You may not use Alternative Distribution Channels to make sales outside or inside the Territory and you may not receive compensation for our sales through Alternative Distribution Channels.

We and our affiliates also reserve the right to use Alternative Distribution Channels to make sales within and outside of your Territory of products or services under trademarks or service marks different from the Marks you will use under the Franchise Operator Agreement,

We and our affiliates also retain, as we deem appropriate, the rights to:

1. establish or allow other WATER DAMAGE franchisees and Franchise Managing Operators to establish WATER DAMAGE businesses at any location outside of the Territory;
2. establish another WATER DAMAGE franchisee, Franchise Managing Operator or Company owned business in the Territory, if you do not achieve the required Gross Sales Requirement and/or Minimum Management Fee Requirements described above;
3. solicit, market to and build National Account relationships as described below, whose offices may be located within or outside the Territory;
4. offer and sell services and products anywhere that do not comprise a part of the WATER DAMAGE System and, in connection with this right, to exploit our Marks, name, reputation, and know-how;
5. acquire businesses providing services similar to those provided under the System within and outside the Territory and to be acquired by such a business;
6. sell products or services under the Marks within and outside the Territory through any method of distribution, although within the Territory, it may not be through a dedicated WATER DAMAGE Business. This includes sales of products using the Marks through Alternative Distribution Channels; and
7. use and license to engage in any other activities not expressly prohibited in the Franchise Operator Agreement.

At this time, we do not have plans to operate or franchise a business under a different trademark selling similar goods and services as provided by a WATER DAMAGE Business.

*12.5 National Accounts*

We have the exclusive right to negotiate and enter into agreements or approve forms of agreement to provide services to "National Account" customers. The term "National Account" means any customer which on its own behalf or through agents, licensees, or other third parties owns, manages, controls or otherwise has responsibility for a business in more than one (1) location, including but not limited to national insurance companies, regardless of the aggregate contract amount of the services to be performed. Any dispute as to whether a particular customer is a National Account shall be determined by us in our sole discretion and our



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determination shall be final and binding. Following the execution of a contract with or the acceptance of a bid by a National Account customer which contemplates the provision of services to one (1) or more National Account customers who are located in your Territory, we may, if you are qualified to perform the services and conditioned upon your substantial compliance with the terms of the Agreement and any other applicable agreements, provide you the opportunity to perform such services pursuant to the terms and conditions of the National Account contract or on such terms and conditions as we, at our sole discretion, determine are appropriate. You agree to provide services to all National Account customer referrals within your Territory. You further agree to provide all services in strict adherence to the WATER DAMAGE performance and process standards and all service guidelines and performance standards of the National Account. You may be required to enter into a service agreement to participate in certain National Account programs.

If you are not able to provide services to a National Account customer in conformity with the terms and conditions of the National Account contract, or fail to make an election within the time we specify after being offered the opportunity, we have the right, exercisable in our sole discretion, to (i) provide, directly or through any affiliate or other franchisee or Franchise Managing Operator, services to the National Account customer; and/or (ii) contract with another party to provide such services to the National Account customer. In either event, neither you nor the Business shall be entitled to any proceeds from the provision of Services provided to the National Account customer.

## ITEM 13: TRADEMARKS

We own the trademarks, service marks, trade names, logotypes, and numerical symbols listed below for promotion, use, license, and sale by us throughout the United States, its territorial possessions, and the District of Columbia. The Agreement grants to you the license to operate the System under the 1-800 WATER DAMAGE name and under any other trade names, trade dress, indicia, trademarks, service marks, and logos currently used or that may be used in the operation of the System.

We have registered the following Marks on the Principal Register of the United States Patent and Trademark Office ("USPTO"):

| Mark | Registration # | Registration Date | Register |
|---|---|---|---|
| 1-800-WATER DAMAGE | 2982370 | August 2, 2005 | Principal |
| | 3688386 | September 9, 2009 | Principal |



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| | | | |
|---|---|---|---|
| | 3047978 | January 24, 2006 | Principal |

No state trademark registrations have been filed.

There are currently no effective material determinations of the USPTO, the trademark administrator of this state, or any court, nor are there any pending interference, opposition, or cancellation proceedings, nor any pending material litigation involving the Marks which may be relevant to their use. We have filed all required renewal affidavits with the USPTO for the Trademarks.

There is currently no pending material federal or state court litigation regarding our use or ownership rights in the Marks.

There are no agreements currently in effect that significantly limit our rights within the United States to use, or license others to use, the Marks listed above in any manner material to the Franchise.

You must follow our rules when you use the Marks. Your right to use the Marks is derived only from the Agreement and is limited to your operation of the Business in accordance and in compliance with the Agreement and all System Standards we prescribe from time to time during its term. You promise to use only the Marks that we designate in writing, and use them only in the manner that we authorize. You may not use any Mark in selling any unauthorized services or products or in any other way we have not expressly authorized in writing.

You agree that your use of the Marks, and any goodwill established by this use, will be exclusively for our benefit and that the Franchise Operator Agreement does not confer any goodwill or other interest in the Marks upon you (other than the right to operate a WATER DAMAGE Business under the Franchise Operator Agreement). Upon expiration or termination of the Franchise Operator Agreement, no monetary amount will be assigned as attributable to any goodwill associated with your use of the System and the Marks.

You must notify us immediately of any apparent infringement or challenge to your use of any Mark, or any claim by any person of any rights in any Mark or of any claim by any person of any rights in any Mark, and you may not communicate with any person other than us and our attorneys, and your attorneys, in any infringement, challenge, or claim. We have sole discretion to take the action we deem appropriate and the right to control exclusively any litigation, USPTO proceeding, or any other administrative proceeding arising out of any infringement, challenge, or claim relating to any Mark. We have the exclusive right, but not the obligation, to affirmatively prosecute actions against third parties for infringement or threatened infringement of the Marks.



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Provided that you have timely notified us of the claim or proceeding and complied with the Agreement as we determine in our sole discretion, we shall indemnify and hold you harmless against any third-party claim, suit or demand arising out of your use of the Marks. If we, in our sole discretion, determine that you have not used the Marks in accordance with the Agreement, you will bear the cost of such defense, including the cost of any judgment or settlement. You promise to sign any and all instruments and documents, render the assistance, and do the acts and things that, in the opinion of our attorneys, may be necessary or advisable to protect and maintain our interests in any litigation or USPTO or other proceeding, or otherwise to protect and maintain our interest in the Marks, including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in a manner inconsistent with the terms of the Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

If it becomes advisable at any time, in our sole discretion, for us to modify or discontinue using any Mark and/or use one or more additional or substitute trade or service marks, you will comply with our directions. Any expenses related to the changing of trademarked items will be deemed an expense or Operating Expense of the Business. We will not reimburse you for any loss of revenue due to any modified or discontinued Mark or for any expenditures the Business makes to promote a modified or substitute trademark or service mark.

We do not know of either superior prior rights or infringing uses that could materially affect your use of our principal Mark in any state.

We are the lawful and sole owner of the domain name www.1800waterdamage.com. You cannot register any of the Marks that are now or in the future owned by us or any abbreviation, acronym or variation of the Marks, or any other name that could be deemed confusingly similar, as Internet domain names. We retain the sole right to advertise the System on the Internet and to create, operate, maintain and modify, or discontinue using any website containing the Marks. You may access our website. Except as we authorize in writing in advance, however, you cannot: (i) link or frame our website; (ii) conduct any business or offer to sell or advertise any products or services on the Internet; or (iii) create or register any Internet domain names in connection with your Franchise. The only exception is that you may list the WATER DAMAGE Business in the local online directory.

## ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

*14.1 Patents and Copyrights*

You do not receive the right to use any item covered by a patent. There are no pending patent applications that are material to the WATER DAMAGE Business. We do not own any registered copyrights which are material to the franchise; however, we claim copyrights in the Operations Manuals, advertising materials, WATER DAMAGE Software, business forms, videos, CDs and other printed and advertising material used in operating the System. We have not registered these copyrights with the United States Registrar of Copyrights. You must use



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these items only in the way we specify and only while operating your WATER DAMAGE Franchised Business.

The Operations Manuals is described in Item 11. You can use the proprietary information contained in the Operations Manuals in connection with the operation of your WATER DAMAGE Business. Although we have not filed an application for a copyright registration for the Operations Manuals, we claim a copyright, and the information is proprietary. Item 11 describes limitations on the use of the Operations Manuals by you and your employees. You must promptly tell us if you learn about unauthorized use of our proprietary information. We are not obligated to take any action, but will respond to this information as we deem appropriate.

There currently are no effective determinations of the Copyright Office (Library of Congress) or any court regarding any of the copyrighted materials. There are no agreements currently in effect that significantly limit our right to use or allow others to use the copyrighted materials. We do not actually know of any infringing uses that could materially affect your use of the copyrighted materials in any state. We need not protect or defend copyrights, although we may do so when this action is, in our opinion, in the best interest of the WATER DAMAGE System.

The Operations Manuals, and other materials we possess, contain our confidential information and/or trade secrets. This information may include (a) general operating procedures for a WATER DAMAGE Business; (b) the proprietary WATER DAMAGE Software; (c) personnel guidelines for hiring, training, retaining, promoting, and supporting the marketing and sales staff; (d) the Initial Training Program; (e) written marketing and advertising materials, audiotapes, videos, and programs for their utilization; (f) knowledge of specifications and suppliers of certain equipment and supplies for the WATER DAMAGE Business; (g) information on operating results and financial performance of WATER DAMAGE Businesses other than your own; (h) sales guidelines and strategies for developing business relationships in the insurance industry; (j) Customer Information, as defined below; and (k) any other information we deem confidential. You acknowledge and agree that we own any and all customer lists and their contents that we provide to you and/or that you subsequently develop during the normal course of operating the WATER DAMAGE Business. You promise to keep an up-to-date list of all current and former customers in the WATER DAMAGE Software, including their name, telephone number, complete mailing address, frequency of service, last date serviced, and price of service (collectively, the "Customer Information"). You may not enter the Customer Information into any other types of software that has not been approved by us.

*14.2 Proprietary Information*

All ideas, concepts, techniques or materials relating to a WATER DAMAGE Business, whether or not constituting protectable intellectual property, and whether created by or on behalf of you, must be promptly disclosed to us, will be considered our property and part of our franchise system and will be considered to be works made-for-hire for us. You must sign



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whatever documents we request to evidence our ownership or to assist us in securing intellectual property rights in such ideas, concepts, techniques or materials.

You may not use our confidential information and/or trade secrets in an unauthorized manner and you must take reasonable steps to prevent unauthorized use or disclosure to others. You also agree that you, as well as certain members of your management and your employees or employees of the Operating Entity, must also execute confidentiality and non-competition agreements.

## ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

You must at all times faithfully, honestly, and diligently perform your obligations under the Agreement. You must devote your full time and personal best efforts to the day-to-day operation of the Business. Given the emergency nature of the services provided by the Business, you must be available 24 hours a day, seven days a week to respond to service requests. If you enter into the Managing Operator Model, you must sign the Franchise Operator Agreement in your individual capacity.

During the term of the Agreement, you may not engage in any other business or activity and cannot have an interest in or business relationship with any competitor of 1 800 WATER DAMAGE or any of its affiliates. Additionally, your spouse and immediate family members, which shall be defined as a spouse, sibling or adult child participating in the Business, are required to sign a Confidentiality and Non-Compete Agreement in the form attached as Exhibit A to the Franchise Operator Agreement pursuant to which they agree that during the term of the Franchise Operator Agreement, they will not own or operate any business offering Remediation Services or Reconstruction Services and/or the services provided by our affiliates.

## ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and provide all of the services that we periodically require for WATER DAMAGE Businesses in the manner we prescribe. You may not market or perform any services that we have not authorized, without our express prior written approval. Our System Standards may regulate required or authorized services and service categories and supplies. There are no limits on our right to periodically change required and/or authorized services and service categories, and we may do so at our discretion. You may market and service customers located within the Territory, and you may service customers located outside the Territory. Except as otherwise prohibited.

## ITEM 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 - MANAGING OPERATOR MODEL



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| | Provision | Section in franchise or other agreement | Summary |
|---|---|---|---|
| a. | Length of the franchise term | Section 2.1 | Term is 10 years from date the Franchise Operator Agreement is signed by us. |
| b. | Renewal or extension of the term | Section 2.2 | If you substantially comply with the Franchise Operator Agreement, including payment provisions, you can add two additional consecutive renewal terms of 10 years. |
| c. | Requirements for franchisee to renew or extend | Section 2.2 | You must: be in substantial compliance with the Franchise Operator Agreement and other agreements with us; have satisfied all monetary requirements; have not received notices three or more times during the previous 30 months of the term for failure to comply with the terms of the Franchise Operator Agreement; continuously service all customers in a manner consistent with our System standards and reputation of ethical and professional conduct; pay us the then-current Renewal Fee of 10% of our then current initial fee; sign a mutual general release; timely notify us of your elections to renew no earlier than nine months and no later than six months before the expiration of the Franchise Operator Agreement; and sign our then-current form of Franchise Operator Agreement, which may contain materially different terms and conditions than your original Franchise Operator Agreement, but the boundaries of the Territory will remain the same. |
| d. | Termination by franchisee | Not Applicable | Not Applicable |
| e. | Termination by franchisor without cause | Not Applicable | We may not terminate you without cause. |
| f. | Termination by franchisor with cause | Section 15 | We can terminate you only if you commit one of several violations. |
| g. | "Cause" defined – curable defaults | Section 15.3 | We may terminate the Franchise Operator Agreement after providing you with notice and a 15-day cure period if: (i) you fail to make payment of any amounts due to us; (ii) you fail, for a period of 15 days after notification of non-compliance by the appropriate authority, to comply with any federal, state or local law, regulation or ordinance applicable to the operation of the Business; (iii) you fail to comply with modifications to System Standards or Operations Manuals within the required time period; (iv) you fail to receive our prior written approval and use products or materials that do not meet our System Standards and/or do not promptly discontinue use after written notice from us; (v) you fail to timely provide us with any report, statement, or return required by the Franchise Operator Agreement; (vi) you fail to service all Customers in a manner |



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| | Provision | Section in franchise or other agreement | Summary |
|---|---|---|---|
| | | | consistent with our System Standards and reputation and you fail to cure such inconsistency; (vii) you advertise outside of the Territory without consent; (viii) you fail to immediately endorse and deliver to us any payments due to us from any third party that is erroneously made to you; (ix) you fail to maintain the prescribed months, days or hours of operation at the WATER DAMAGE Business; (x) you fail, in our sole discretion, to personally supervise day-to-day operation of the WATER DAMAGE Business or fail to employ a sufficient number of qualified, competent personnel as we require from time to time; (xi) you fail to maintain the strict quality controls reasonably required by the Franchise Operator Agreement and/or the Operations Manuals; (xii) you conduct yourself in a manner that, although not criminal, reflects adversely on the System, the Marks, or the products offered through the System; or (xiii) you fail to procure or maintain any licenses, certifications, or permits necessary for the operation of the Business. |
| | | Section 15.4 | We also have the right to terminate this Agreement after providing notice and a 30 day cure period if you fail to perform or comply with any one or more of the terms or conditions of the Franchise Operator Agreement or the Operations Manuals not specifically contained above; including, without limitation, any warranty, or certification of the Franchise Operator Agreement, and any System Standard or other provision in the Operations Manuals, or if you breach any other agreement you have with us. |
| h. | "Cause" defined – non-curable defaults | Section 15.1 | The Franchise Operator Agreement will automatically terminate without notice or an opportunity to cure if: (i) you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the Business; (ii) proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for you without your consent, and the appointment is not vacated within 60 days; or (iii) you purport to sell, transfer or otherwise dispose of your interest in the Franchise Operator Agreement without our written approval; or sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise |



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| | Provision | Section in franchise or other agreement | Summary |
|---|---|---|---|
| | | Section 15.2 | encumber any of the Assets of the Business.<br><br>We may automatically terminate the Franchise Operator Agreement with notice and without an opportunity to cure if: (i) you fail to attend or successfully complete the Initial Training within 3 months of signing the Franchise Operator Agreement; (ii) you fail to commence operation of the Business within three months of signing the Franchise Operator Agreement; (iii) you have made or make any material misrepresentation or omission to us in purchasing or operating the WATER DAMAGE Business; (iv) you receive from us three or more notices to cure the same or similar defaults or violations of the Franchise Operator Agreement, within any two year period, regardless of whether these defaults were cured after notice was sent to you; (v) you are or have been convicted by a trial court of, or plead no contest to, a felony or any conviction rising to the equivalent of a felony and/or failure to disclose a prior felony conviction or conviction rising to the equivalent of a felony to us; (vi) you understate any amounts owed to use by 3% or more, in any reported financial statement, on three or more occasions, during any consecutive two year period during the term of the Franchise Operator Agreement, regardless of whether or not you subsequently rectify the deficiency; (vii) you engage in any dishonest or unethical conduct, which may adversely affect the reputation of the Business, or the general goodwill associated with the Marks; (viii) you violate any covenant of confidentiality or non-disclosure provision contained in the Franchise Operator Agreement; (ix) you cease to continuously and actively operate the Business for five consecutive days, unless caused by an act of God, or other circumstance beyond your control, as determined by us; (x) you fail to attend the our Annual Convention every year; (xi) any other Franchise Operator Agreement, franchise agreement or other agreement you have with us, or any franchise agreement you have with our affiliates is terminated for any reason; (xii) you commit three or more defaults of the Franchise Operator Agreement in any 12 month period; (xiii) you materially breach any other agreement with us or any of our affiliates, or threaten any material breach of any such agreement, or any lease for the Premises, and fail to cure such breach within any permitted period for cure; (xiv) you materially violate any provision hereof pertaining to the Marks or Confidential Information or misuse the Marks or Confidential Information; (xv) you violate any safety or sanitation law, ordinance or regulation or operate |



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| | Provision | Section in franchise or other agreement | Summary |
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| | | | the WATER DAMAGE Business in a manner that presents a health or safety hazard to customers, or the general public; (xvi) you violate the in-term restrictive covenant contained in the Franchise Operator Agreement or you fail to refer a Required Referral to us, BELFOR, or BELFOR USA, Inc.; (xvii) you order or purchase unapproved supplies, signs, furnishings, fixtures, equipment or inventory or purchase approved items from an unapproved supplier; (xviii) you fail to comply with the anti-terrorism provisions of the Franchise Operator Agreement; (xix) you take for your own personal use any assets or property of the WATER DAMAGE Business; or (xx) you assign, transfer, sell, or encumber any assets of or interests in the entity operating the location. |
| i. | Franchisee's obligations on termination/non-renewal | Section 15.6 | Vacate the Office of the Business and return all equipment, supplies and inventory to us or our designee; pay all amounts due; return of all materials loaned to you; to the extent in your possession, deliver to us all customer information; comply with your non-compete and confidentiality obligations; non-contact with customers or former customers; and provide evidence of your compliance with post-termination obligations. |
| j. | Assignment of contract by franchisor | Section 14.1 | No restriction on our right to assign. |
| k. | "Transfer" by franchisee – definition | Section 14.2 | The transfer or assignment of the Franchise Operator Agreement. |
| l. | Franchisor's approval of transfer by franchisee | Section 14.2 | We have the right to approve all transfers if specified conditions are met. |



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| | Provision | Section in franchise or other agreement | Summary |
|---|---|---|---|
| m. | Conditions for franchisor approval of transfer | Section 14.3 | The Franchise Operator Agreement is a personal services contract and your interests in the Franchise Operator Agreement may not be assigned or transferred for any reason during the first five years of the term, except as described in Section 15.5 and Section 14.2 of the Franchise Operator Agreement. Thereafter, you may only transfer or assign your interest to a third-party individual who agrees to assume all of your obligations and responsibilities under the Franchise Operator Agreement.<br><br>We have the right to approve any transfers but will not unreasonably withhold approval if certain conditions are met: you are in full compliance with the Franchise Operator Agreement; the transferee has demonstrated sufficient business experience, aptitude, and financial resources to meet our then-current standards; the transferee is not engaged in a competitive business; you provide us with written authorization to release to the transferee any and all information about the operation of the Business; the transferee has signed our then current form of Franchise Operator Agreement; all outstanding fees owed by you have been paid to us; the transfer fee is paid; the broker fee or commission, if applicable, is paid; material terms of the purchase agreement approved; transferee successfully completes our Initial Training Program prior to commencing business; transferee obtains all necessary permits and licenses; to the extent necessary; release signed by you; transferee's immediate family members sign our then current confidentiality and non-compete agreement; the transfer is made in compliance with all laws. |
| n. | Franchisor's right of first refusal to acquire franchisee's business | Not Applicable. | Not Applicable. |
| o. | Franchisor's option to purchase franchisee's business | Not Applicable. | Not Applicable. |



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| | Provision | Section in franchise or other agreement | Summary |
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| p. | Death or disability of franchisee | Section 11.1 | In the event of your death the Franchise Operator Agreement will terminate. Any amounts due you from the Operating Entity will be paid to your beneficiary as per the terms of the Franchise Operator Agreement.<br><br>In the event of your permanent disability we will allow you 90 days to transfer your interest in the business to a qualified buyer that meets our specifications as described in Section 14 of the Franchise Operator Agreement. In the event that you are unable to locate a qualified buyer within 90 days from the time you became disabled, the Franchise Operator Agreement will be terminated. Any amounts due to you from the Franchise Operator Agreement prior to your disability, will be paid to you as per the terms of the Franchise Operator Agreement. |
| q. | Non-competition covenants during the term of the franchise | Section 11.1 | During the term of the Franchise Operator Agreement, you, and your immediate family members shall not: (i) engage as an owner, partner, shareholder, director, officer, employee, consultant, agent, or in any other capacity in any other business offering water damage restoration services, carpet cleaning services, mold remediation, odor removal and related cleaning and remediation services the same as or similar to the Services sold by the WATER DAMAGE Business (except for other franchises or authorizations we enter into with you) or reconstruction services, including structural repair work, interior finishing, electrical, mechanical and plumbing and heating services and/or the services provided by any of any of our affiliates; (ii) use our Confidential Information, System, Operations Manuals, Marks, customer lists, Customer Information, trade secrets, trade dress, proprietary knowledge, or know-how, or any colorable imitations, in the design, development, or operation of any business other than the WATER DAMAGE Business franchised hereunder, unless specifically authorized by us; (iii) employ or seek to employ any person who is at that time employed by us, our affiliates or any other WATER DAMAGE franchisee or Franchise Managing Operator, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or (iv) divert or attempt to divert any business or customer of the WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System. |
| r. | Non-competition covenants after the | Sections 11.2 | For a period of 24 months from the time of expiration or termination of the Franchise Operator Agreement, you and, if |



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| | Provision | Section in franchise or other agreement | Summary |
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| | franchise is terminated or expires | | applicable, your Designated Manager, shall not: (a) engage as an owner, shareholder, partner, director, officer, employee, consultant, salesperson, representative, or agent or in any other capacity in any business offering water damage restoration services, carpet cleaning services, mold remediation, odor removal and related cleaning and remediation services and/or the services provided by any of our affiliates; (b) employ or seek to employ any person who is at that time employed by us, our affiliates or any other WATER DAMAGE franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; (c) solicit business from customers of your former WATER DAMAGE Business or contact any of our suppliers or vendors for any competitive business purpose; or (d) divert or attempt to divert any business or customer of the WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System within: (i) your Territory; (ii) the geographic area encompassed by the territories of any WATER DAMAGE franchisee, WATER DAMAGE Company business, or any other WATER DAMAGE business operators, as of the date of the termination or expiration of the Franchise Operator Agreement; or (iii) a geographic area that is contained in a circle having a radius of 100 miles outward from the outside boundary of your Territory. |
| s. | Modification of Agreement | Section 18.7 | The Franchise Operator Agreement may only be modified in writing upon agreement by both parties. |
| t. | Integration/merger clause | Section 18.7 | Only the terms of the Franchise Operator Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and Franchise Operator Agreement may not be enforceable. |
| u. | Dispute resolution by arbitration or mediation | Section 16.1<br><br>Section 16.2 | You must bring any disputes arising out of the Franchise Operator Agreement or any other agreement with us to our President prior to bringing a claim before any third party in an attempt to resolve the dispute internally.<br><br>After exhaustion of this internal dispute resolution procedure, at our option, all claims or disputes between you and us must be submitted first to non-binding mediation in Ann Arbor, Michigan, in accordance with the American Arbitration Association's Commercial Mediation Rules then in effect. |
| v. | Choice of forum | Section 16.3 | All claims not subject to mediation must be commenced in the |



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| | Provision | Section in franchise or other agreement | Summary |
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| | | | state or federal court of general jurisdiction, in Washtenaw County, Michigan or the United States District Court for the Eastern District of Michigan (subject to state law). You agree that there will be no class actions. |
| w. | Choice of law | Section 16.5 | Except for federal law, Michigan law applies (subject to state law). You and we waive rights to jury trial and punitive and exemplary damages. |

## THE FRANCHISE RELATIONSHIP – TRADITIONAL FRANCHISE MODEL

| | Provisions | Section in Franchise Agreement | Summary |
|---|---|---|---|
| a. | Length of the franchise term | Section 1.B | Term is 10 years from date the Franchise Agreement is signed by us. |
| b. | Renewal or extension of the term | Section 11.A | If you substantially comply with the Franchise Agreement, including payment provisions, you can add two additional consecutive renewal terms of 10 years for a Franchise. |
| c. | Requirements for franchisee to renew or extend | Section 11 | You must: (i) be in substantial compliance with the Franchise Agreement and other agreements with us; (ii) have satisfied all monetary requirements and made timely payments; (iii) have not received notices 3 or more times during the last 24 months of the term; (iv) complete any required training; (v) continuously service all customers in a manner consistent with our System standards and reputation of ethical and professional conduct; (vi) pay us the then current Renewal Fee; (vii) sign a Mutual General Release; (viii) notify us of your election to renew no earlier than 9 months and no later than 6 months before the expiration of the Franchise Agreement; (ix) at our request, upgrade and remodel the business; (x) sign our then-current form of franchise agreement, which may contain materially different terms and conditions than your original franchise agreement, but the boundaries of the Territory will remain the same; (xi) submit proof to us that you have the right to operate the WATER DAMAGE Business at the Office Site for the Renewal Term. |
| d. | Termination by franchisee | Not Applicable | Not Applicable |
| e. | Termination by franchisor without cause | Not Applicable | We may not terminate you without cause. |
| f. | Termination | Section 12.B | We can terminate you only if you commit one of several violations. |



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| | Provisions | Section in Franchise Agreement | Summary |
|---|---|---|---|
| | by franchisor with cause. | | |
| g. | "Cause" defined – curable defaults | Section 12.C | We have the right to terminate the Franchise Agreement if any of the following defaults remains uncured after expiration of the (15) day cure period if you: (i) fail to make payment of any amounts due to us, or funds are not available in your account for debiting when they are due, or you do not record in the Software funds paid to you for jobs completed within 48 hours of their receipt or you default on any loan made to you by us or our preferred lender for the purchase of the Territory; (ii) fail to have in your employ for a period of 2 consecutive months (a) at least one Service Technician, or (b) a Designated Manager; (iii) fail to comply with any federal, state or local, law, regulation or ordinance applicable to the operation of the Business; (iv) fail to comply with any part or condition, warranty, or certification requirement in the Franchise Agreement, the intranet website, Manuals and/or other WATER DAMAGE confidential materials; (v) fail to comply with modifications to System standards intranet website, or Manuals within the required time period; (vi) fail to make payments on the vehicle resulting in repossession and you do not have a vehicle, which meets our standards to operate the Business; (vii) fail to receive our prior written approval and use products or materials that do not meet our System standards and/or do not promptly discontinue use after written notice from us; (viii) fail to timely provide us with any report, statement, or return required by the Franchise Agreement; (ix) fail to service all customers in a manner consistent with our System standards and reputation and you fail to cure such inconsistency; (x) advertise or solicit a customer or service location located in another Affiliate Territory without permission (xi) You fail to immediately endorse and deliver to us any payments due to us from any third party that is erroneously made to you; (xii) fail to maintain the prescribed months, days or hours of operation at the 1-800 WATER DAMAGE Business; (xiii) fail, in our sole discretion, to personally supervise day-to-day operation of the 1-800 WATER DAMAGE Business or fail to employ a sufficient number of qualified, competent personnel as we require from time to time; (xiv) fail to maintain the strict quality controls reasonably required by the Franchise Agreement and/or the Manuals; (xv) conduct yourself in a manner that, although not criminal, reflects adversely on the System, the Marks, or the products offered through the System; or (xvi) fail to procure or maintain any licenses, certifications, or permits necessary for the operation of your 1-800 WATER DAMAGE Business. |
| h. | "Cause" defined – non-curable defaults | Section 12.A & B | The Franchise Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following: (i) you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent; (ii) proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, |



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| | Provisions | Section in Franchise Agreement | Summary |
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| | | | and such proceedings are not dismissed within sixty (60) days, or a trustee or receiver is appointed for you or the 1-800 WATER DAMAGE Business without your consent, and the appointment is not vacated within sixty (60) days; or (iii) you violate any of the transfer provisions contained in Section 10 of the Franchise Agreement.<br><br>We have the right to terminate the Franchise Agreement, immediately, and without the opportunity to cure, effective upon delivery of written notice to you, or any of the following: (i) your Managing Owner and, if applicable, Designated Manager, fail to attend or successfully complete the Initial Training Program within 4 months of signing the Franchise Agreement and/or fulfill all the pre-training requirements; (ii) you fail to commence operation of the 1-800 WATER DAMAGE Business within 4 months of signing the Franchise Agreement and/or 2 months following your successful completion of the Initial Training Program; (iii) you have made or make any material misrepresentation or omission in purchasing the Franchise or operating the 1-800 WATER DAMAGE Business; (iv) you receive from us 3 or more notices to cure the same or similar defaults or violations of the Franchise Agreement, within any 2-year period of time; (v) you are or have been convicted by a trial court of, or plead no contest to a felony and/or failure to disclose a prior felony conviction or conviction rising to the equivalent of a felony to us; (vi) you understate your Royalty by 3% or more, in any reported financial statement, on 3 or more occasions, during any consecutive 2-year time frame during the term of the Franchise Agreement; (vii) you engage in any dishonest or unethical conduct; (viii) you violate any provision regarding confidentiality or non-disclosure contained in Sections 6 and 13 of the Franchise Agreement; (ix) you cease to continuously and actively operate the Business for 5 consecutive days or your conduct is otherwise determined by us to constitute an abandonment of the Business; (x) you fail to acquire or continuously maintain the required minimum levels of insurance; (xi) you fail to attend the Annual Convention every year and you fail to get approval prior to commencement of the convention to miss them; (xii) your Managing Owner or, if applicable, your Designated Manager, fail to attend, or send a representative in their place, to a minimum of one training course or regional meeting per two calendar years; (xiii) you fail to train your Service Technician within 4 months of signing the Franchise Agreement; (xiv) Any franchise agreement you or your owner(s) or affiliates have with 1 800 WATER DAMAGE International, LLC is terminated for any reason; (xv) you commit 3 or more defaults of the Franchise Agreement in any 12 month period; (xvi) you or your principals materially breach any other agreement with us or any of our affiliates, or any lease for the Office Site, and fail to cure such breach within any permitted period for cure; (xvii) you or your principals materially violate any provision hereof pertaining to Marks or Confidential Information or misuse the Marks or Confidential |



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| | Provisions | Section in Franchise Agreement | Summary |
|---|---|---|---|
| | | | Information; (xviii) you violate any safety or sanitation law, ordinance or regulation or operates the 1-800 WATER DAMAGE Business in a manner that presents a health or safety hazard to customers, or the general public; (xix) you violate the in-term restrictive covenant contained in Section 6; (xx) a levy of writ of attachment or execution or any other lien is placed against you or any of your principals or any of their assets which is not released or bonded against within 30 days; (xxi) you or any of your principals become insolvent; (xxii) you order or purchase supplies, signs, furnishings, fixtures, equipment or inventory from an unapproved supplier; (xxiii) you misuse or make unauthorized use of any 1-800 WATER DAMAGE Software that we may develop for use in connection with the System; (xxiv) you fail to comply with the provisions of Section 15.S.; (xxv) you take for your own personal use any assets or property of the 1-800 WATER DAMAGE Business, including employee taxes, FICA, insurance or benefits; or (xxvi) If there are insufficient funds in your bank account to cover a check or EFT payment to us 3 or more times within any 12 month period. |
| i. | Franchisee's obligations on termination/non-renewal | Section 13 | Obligations include complete de-identification; payment of amounts due, including any promissory note balances; return of all materials; delivery of all Customer Information; non-compete obligations; confidentiality obligations; assignment of your accounts receivable to us if your obligations are not paid in full; changing names and DBAs; notification of phone and internet directories of termination and effecting transfer of your listings to us; transfer lease to us if we request; and provide evidence of your compliance with post-termination obligations. |
| j. | Assignment of contract by franchisor | Section 10.A | No restriction on our right to assign. |
| k. | "Transfer" by franchisee – definition | Section 10.B | Includes transfer or assignment of the Franchise Agreement, the Franchise, the Franchised Business or any part thereof, and change of your ownership in an amount aggregating 33% or more. |
| l. | Franchisor's approval of transfer by franchisee | Section 10.B | We have the right to approve all transfers and ensure that specified conditions are met. |
| m. | Conditions for franchisor approval of transfer | Section 10.B | We have the right to approve all transfers but will not unreasonably withhold approval if certain conditions are met: you are in full compliance with the Franchise Agreement or any other agreement between you and us, our affiliates, our designated/approved suppliers and vendors and you have paid all accrued monetary obligations to us, our affiliates, and our designated/approved suppliers and vendors; the transferee has demonstrated sufficient business experience, aptitude, and financial resources to meet our then current standards, the transferee and its owners are not or do not remain engaged in a competitive business; the transferees |



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| | Provisions | Section in Franchise Agreement | Summary |
|---|---|---|---|
| | | | are not engaged in a competitive business, unless they agree to operate all competitive services as part of the 1-800 WATER DAMAGE Business; transferees sign the then-current form of franchise agreement; you provide us with written authorization to release to the transferee any and all information about the operation of the Franchised Business; the transferee has signed our then current form of Franchise Agreement; all outstanding fees owed by you have been paid to us; the transfer fee is paid; the broker fee or commission, if applicable, is paid; material terms of the purchase agreement approved; transferee successfully completes our Initial Training Program; release signed by you, your principals, and the transferee (if we have a prior relationship with the transferee); you agree that any financing obligations of transferee are subordinate to transferee's obligation to pay fees to us; transferee and under certain circumstances, its principals, must assume your obligations to us.; the transferee must obtain, within the time limits set by us, and maintain thereafter, all permits and licenses required for the operation of the 1-800 WATER DAMAGE Business; to the extent required by the terms of any leases or other agreements, the lessors or other parties must have consented to the proposed transfer; and the transfer must be made in compliance with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises. |
| n. | Franchisor's right of first refusal to acquire franchisee's business | Section 10.D | Before transferring your interest in the Franchise Agreement, you must first offer us the right to purchase the interest on the same terms and conditions contained in any bona fide offer less the transfer fee. We have 30 days to decide. |
| o. | Franchisor's option to purchase franchisee's business | Not Applicable | We do not have an option to purchase your business. |
| p. | Death or disability of franchisee | Section 10.C | You must transfer within 12 months of your death or disability. If you are an individual, your heirs may continue to operate your Franchised Business if the party would otherwise qualify as a transferee. You may transfer to a spouse, child, or parent if they qualify as a transferee and satisfy transfer obligations, without a transfer fee. |
| q. | Non-competition covenants during the term of the franchise | Section 6 | During the term of the Franchise Agreement, you and your Managing Owner, your Designated Manager (if applicable) and Service Technician shall not: (i) engage as an owner, partner, shareholder, director, officer, employee, consultant, agent, or in any other capacity in any other business offering Remediation Services, cleaning and restoration services the same as or similar to the services sold by the 1-800 WATER DAMAGE Business and/or the services provided by our affiliates, including but not limited to Remediation Services, cleaning and restoration (except for other |



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| | Provisions | Section in Franchise Agreement | Summary |
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| | | | franchises or authorizations we enter into with you); (ii) use our Confidential Information, System, intranet website, Manuals, Marks, customer lists, Customer Information, or any colorable imitations, in the design, development, or operation of any business other than the 1-800 WATER DAMAGE Business; (iii) employ or seek to employ any person who is at that time employed by us, our affiliates or any other 1-800 WATER DAMAGE franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or (iv) divert or attempt to divert any business or customer of the 1-800 WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System. |
| r. | Non-competition covenants after the franchise is terminated or expires | Section 13.D | For a period of 24 months from the time of expiration or termination of the Franchise Agreement, you and your owners and, if applicable, your Designated Manager, shall not (a) engage as an owner, shareholder, partner, director, officer, employee, consultant, salesperson, representative, or agent or in any other capacity in any Remediation Services, cleaning and restoration services or any of the services provided by our affiliates, (b) employ or seek to employ any person who is at that time employed by us, our affiliates or any other 1-800 WATER DAMAGE franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat, or (c) divert or attempt to divert any business or customer of the 1-800 WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System or engage in any business relationship with any contacts with customers or former customers of the 1-800 WATER DAMAGE Business, whether with respect to collection of accounts receivable, or to provide them services, or for any other purpose whatsoever, within: (i)the Territory as defined in the Franchise Agreement; (ii) the geographic area encompassed by the Territories of any 1-800 WATER DAMAGE franchisees, 1-800 WATER DAMAGE Company Store, or any other 1-800 WATER DAMAGE business operator, as of the date of the termination or expiration of the Franchise Agreement; or (iii) a geographic area that is contained in a circle having a radius of 100 miles outward from the outside boundary of the Territory as defined in the Franchise Agreement. |
| s. | Modification of Agreement | Section 15.J | Modification of the agreement must be in writing and agreed upon by both parties. |
| t. | Integration/merger clause | Section 15.L | Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the Disclosure Document and Franchise Agreement may not be enforceable. |
| u. | Dispute | Sections | You must bring any disputes arising out of the Franchise Agreement or any |



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| | Provisions | Section in Franchise Agreement | Summary |
|---|---|---|---|
| | resolution by arbitration or mediation | 15.F.1 and 15.F.2 | other agreement with us to our President prior to bringing a claim before any third party in an attempt to resolve the dispute internally. After exhaustion of this internal dispute resolution procedure, at our option, all claims or disputes between you and us must be submitted first to non-binding mediation in Ann Arbor, Michigan, in accordance with the American Arbitration Association's Commercial Mediation Rules then in effect. |
| v. | Choice of forum | Section 15.F.3 | All claims not subject to mediation must be commenced in the state, or federal court of general jurisdiction in Washtenaw County, Michigan or the United States District Court for the Eastern District of Michigan (subject to state law). |
| w. | Choice of law | Section 15.H | Except federal law, Michigan law applies (subject to state law). |

## ITEM 18: PUBLIC FIGURES

We do not use any public figures to promote our franchise. You have no right to use the name of any public figure for promotional efforts, advertising, or endorsements, except with our prior written consent. No public figure has any investment in the franchise.

## ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is any reasonable basis for the information, and if the information is included in the disclosure document. Financial 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.

As of December 31, 2015, there were 24 franchised Businesses operating in 31 territories and two Company owned Business, within the United States. This Item sets forth historical gross sales information for 24 franchisees (the "Included Franchisees") operating in a total of 31 territories that were operation for the entire measurement period of January 1, 2014 to December 31, 2014 (the "Measurement Period"). With respect to the franchisee information that is reported in this Item 19, the franchisee outlet information is broken down by franchisee and not by territory. As disclosed below, four of the Included Franchisees operate two or more Outlets within separate territories. Excluded from this Item 19 are the two Company owned Businesses.

The Included Franchisees operate under the same marks and offer the same services that you will offer as a Franchisee. The Included Franchisees' businesses operate under the Traditional Franchise Model and are directly responsible for all costs and expenses associated



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with the operation of their businesses.

The sales and cost information presented in this Item was provided by the Included Franchisees through monthly gross sales reports submitted by the Included Franchisees. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.

Importantly, the success of your Business will depend largely upon your individual abilities and your market, and the financial results of your Business are likely to differ, perhaps materially, from the results summarized in this Item.

We believe that the following financial data has been compiled using generally accepted accounting principles, but we have not audited the data. Additionally, this Item does not contain expense and operating cost information, including royalty fees and advertising fund contributions that the Business will incur.

The gross sales of the Business may vary substantially as compared to the sales disclosed in the charts below as a start-up enterprise. We are providing you with the following information with the understanding that you will do your own research to develop data with which to perform your analysis. Reviewing this limited amount of information cannot substitute for thorough research on your part and careful evaluation of this franchise opportunity with professional and legal advisors.

**Gross Sales of Single Territory Included Franchisees during Measurement Period**

| Included Franchisee | State(s) of Territory | Total Territory Population | # of Territories (or units) | 2015 Gross Sales | Year Opened |
|---|---|---|---|---|---|
| #1 | AZ | 431,003 | 1 | $270,001.00 | 2013 |
| #2 | CO | 796,169 | 1 | $512,034.00 | 2010 |
| #3 | CO | 367,238 | 1 | $337,669.00 | 2012 |
| #4 | FL | 773,770 | 1 | $196,041.00 | 2013 |
| #5 | GA | 539,167 | 1 | $218,972.00 | 2012 |
| #6 | ID | 400,741 | 1 | $251,591.00 | 2012 |
| #7 | IN | 836,406 | 1 | $300,032.00 | 2010 |
| #8 | IN | 473,643 | 1 | $788,701.00 | 2011 |
| #9 | IN | 284,551 | 1 | $144,208.00 | 2013 |
| #10 | KY | 342,584 | 1 | $220,618.00 | 2013 |
| #11 | ME | 406,986 | 1 | $191,471.00 | 2008 |
| #12 | MI | 446,825 | 1 | $327,026.00 | 2012 |
| #13 | NC | 454,788 | 1 | $429,054.00 | 2010 |



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| | | | | | |
|---|---|---|---|---|---|
| #14 | NC | 958,819 | 1 | $332,104.00 | 2008 |
| **Included Franchisee** | **State(s) of Territory** | **Total Territory Population** | **# of Territories (or units)** | **2014 Gross Sales** | **Year Opened** |
| #15 | NC | 471,500 | 1 | $603,363.00 | 2012 |
| #16 | NJ | 860,900 | 1 | $80,158.00 | 2010 |
| #17 | NJ | 447,493 | 1 | $206,898.00 | 2011 |
| #18 | OH | 698,344 | 1 | $58,207.00 | 2006 |
| #22 | TN | 379,646 | 1 | $359,241.00 | 2012 |
| #23 | VA | 380,958 | 1 | $518,760.00 | 2011 |
| #24 | WI | 366,994 | 1 | $152,065.00 | 2011 |

**Average Gross Sales by Territory of Multi-Territory Included Franchisees during Measurement Period**

| Included Franchisee | State(s) of Territory | Total Territory Population | # of Territories (or units) | 2015 Average Gross Sales Per Territory | Year Opened |
|---|---|---|---|---|---|
| #1 | MI | 842,875 | 2 | $548,879.00 | 2011 |
| #2 | OH | 1,912,699 | 5 | $125,726.00 | 2007 |
| #3 | OR/WA | 1,514,136 | 3 | $485,449.00 | 2007 |

Notes.

1. "Gross Sales" means all revenues generated from all business conducted at or from the Included Franchises during the preceding reporting period, including amounts received from the sale and delivery of merchandise and tangible property of any nature whatsoever. "Gross Sales" does not include the amount of any tax imposed by any federal, state, municipal or other governmental authority; you agree to pay such amounts as and when due.

2. The Average Gross Sales by Territory of Multi-Territory Included Franchisees was calculated by dividing the total 2015 Gross Sales by the number of territories for each multi-territory franchisee.

Assumption.

1. Your results may vary upon the location of your Business. Your results may also vary as start-up business.

2. The Included Franchisees operate under the same marks and offer the same services that you will offer as a Franchise Managing Operator or Franchisee. The Included Franchisees'



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operate under the Traditional Franchise Model and are directly responsible for all costs and expenses associated with their businesses.

3. This analysis does not contain information concerning the operating costs and expenses that the Business will incur, including Management Fees, Technology Fees, Local Advertising Contributions, National Marketing Fund contributions, rent, inventory costs, payroll, payroll taxes, owner compensation/salary, healthcare, employee benefits, uniforms, office supplies, postage, travel and entertainment expenses, utilities and telephone charges, late fees, training fees, and other fees and operating expenses.

4. The above figures exclude tax liabilities.

5. The above figures exclude professional fees or other administrative expenses that you may incur, including legal and accounting fees.

6. Interest expense, interest income, depreciation, amortization and other income or expenses will vary substantially from business to business.

7. Expenses and costs may significantly impact profits realized in any particular operation.

**General Notes to Item 19.**

Your results may vary based upon the location of your business. Your results may also vary as a start-up business.

**Some outlets have earned this amount. There is no assurance you'll do as well. If you rely upon our figures, you must accept the risk of not doing as well.**

Your individual results may differ. Sales, revenues and expenses of your Business will be directly affected by many factors, such as: (a) geographic location; (b) competition from other similar businesses in your area; (c) advertising effectiveness based on market saturation; (d) your product and service pricing; (e) vendor prices on materials, supplies and inventory; (f) labor costs; (g) ability to generate customers; (h) customer loyalty; and (i) employment conditions in the market.

Therefore, we recommend that you make your own independent investigation to determine whether or not the franchise may be profitable to you. You should use the above information only as a reference in conducting your analysis and preparing your own projected income statements and cash flow statements. We suggest strongly that you consult your financial advisor or personal accountant concerning financial projections and federal, state and local income taxes and any other applicable taxes that you may incur in operating a Business.

The success of your Business will depend largely upon your individual abilities and your market, and the financial results of your Franchise are likely to differ, perhaps materially, from the results summarized in this Item.



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Other than the preceding financial performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the our management by contacting Andrew Mengason, Chief Operating Officer, at 731 Fairfield Court, Ann Arbor, Michigan 48108, 734-864-97899, the Federal Trade Commission, and the appropriate state regulatory agencies.

Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.

## ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1**
**Systemwide Outlet Summary**
**For years 2013, 2014, 2015**

| Column 1<br>Outlet Type | Column 2<br>Year | Column 3<br>Outlets at the Start of the Year | Column 4<br>Outlets at the End of the Year | Column 5<br>Net Change |
|---|---|---|---|---|
| Franchised | 2013 | 66 | 53 | -13 |
| | 2014 | 53 | 43 | -10 |
| | 2015 | 43 | 31 | -12 |
| Company- or Affiliate-Owned* | 2013 | 1 | 1 | 0 |
| | 2014 | 1 | 1 | 0 |
| | 2015 | 1 | 2 | 1 |
| Total Outlets | 2013 | 67 | 54 | -13 |
| | 2014 | 54 | 44 | -10 |
| | 2015 | 44 | 33 | -11 |

*Our affiliate, A Cure Disaster Services, LLC, provides water damage restoration services in the Seattle, WA area and the Cranston, RI area.

**Table No. 2**
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**
**For years 2013, 2014, 2015**

| Column 1<br>State | Column 2<br>Year | Column 3<br>Number of Transfers |
|---|---|---|
| Kentucky | 2013 | 0 |
| | 2014 | 1 |



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| | | |
|---|---|---|
| | 2015 | 0 |
| **Total** | 2013 | 0 |
| | 2014 | 1 |
| | 2015 | 0 |

**Table No. 3**
**Status of Franchised Outlets**
**For years 2013, 2014, 2015**

| State | Year | Outlets at Start of Year | Outlets Opened | Term-inations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| Arkansas | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 2013 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Colorado | 2013 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2014 | 3 | 0 | 0 | 1 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Connect-icut | 2013 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 1 | 0 | 0 | 1 | 2 |
| Florida | 2013 | 7 | 0 | 0 | 0 | 0 | 0 | 7 |
| | 2014 | 7 | 0 | 5 | 0 | 0 | 1 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Georgia | 2013 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 1 | 0 | 0 | 0 | 1 |
| Idaho | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Illinois | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Indiana | 2013 | 2 | 1 | 0 | 0 | 0 | 0 | 3 |
| | 2014 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2015 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Kentucky | 2013 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 0 | 0 | 0 | 1 | 1 |



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| State | Year | Outlets at Start of Year | Outlets Opened | Term-inations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| Louisiana | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Maine | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Maryland | 2013 | 2 | 0 | 2 | 0 | 0 | 0 | 0 |
| | 2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mass-achusetts | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| Michigan | 2013 | 5 | 0 | 0 | 0 | 0 | 2 | 3 |
| | 2014 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2015 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| New Jersey | 2013 | 3 | 0 | 0 | 0 | 0 | 1 | 2 |
| | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| New Mexico | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| New York | 2013 | 13 | 0 | 0 | 12 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| North Carolina | 2013 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2014 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2015 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Ohio | 2013 | 6 | 0 | 0 | 0 | 0 | 0 | 6 |
| | 2014 | 6 | 0 | 0 | 0 | 0 | 0 | 6 |
| | 2015 | 6 | 0 | 0 | 0 | 0 | 0 | 6 |
| Oregon | 2013 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Rhode Island | 2013 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2014 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2015 | 3 | 0 | 0 | 0 | 0 | 3 | 0 |
| South Carolina | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |



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| State | Year | Outlets at Start of Year | Outlets Opened | Term-inations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| Tennessee | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Texas | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| Virginia | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Washington | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Wisconsin | 2013 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **TOTALS** | 2013 | 66 | 4 | 2 | 12 | 0 | 3 | 53 |
| | 2014 | 53 | 0 | 7 | 1 | 0 | 2 | 43 |
| | 2015 | 43 | 0 | 4 | 0 | 0 | 8 | 31 |

**Table No. 4**
**Status of Company- or Affiliate-Owned Outlets**
**For years 2013, 2014, 2015**

| State | Year | Outlets at Start of Year | Outlets Opened | Outlets Reacquired from Franchisees | Outlets Closed | Outlets Sold to Franchisees | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|
| Rhode Island | 2013 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2014 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 1 | 0 | 0 | 0 | 1 |
| Washington | 2013 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 1 |
| **TOTALS** | 2013 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2014 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 1 | 0 | 0 | 0 | 2 |



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**Table No. 5**
**Projected Openings as of December 31, 2015**

| Column 1<br>State | Column 2<br>Franchise/Franchise Operator Agreements Signed but Outlet Not Opened | Column 3<br>*Projected New Franchised Outlets in the Next Fiscal Year | Column 4<br>Projected New Company-Owned Outlets in the Next Fiscal Year |
|---|---|---|---|
| Florida | 0 | 1 | 0 |
| Georgia | 0 | 1 | 0 |
| New Hampshire | 0 | 1 | 0 |
| North Carolina | 0 | 1 | 0 |
| Ohio | 0 | 1 | 0 |
| Pennsylvania | 0 | 2 | 0 |
| **TOTALS** | 0 | 7 | 0 |

Exhibit F to this Disclosure Document includes the names, addresses and telephone numbers of all franchise owners as of December 31, 2015. The existing franchisees operate under a franchise agreement with terms that are different then the Franchise Operator Agreement you will sign with us.

Exhibit G to this Disclosure Document includes the name, city and state, and the current business telephone number (or if unknown, the last known home telephone number) of every franchisee who had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement between January 1, 2015 and December 31, 2015 or who has not communicated with us within ten weeks of the issuance 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, in some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.



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Exhibit I-1 lists, to the extent known, the names, addresses, telephone numbers, email addresses and web addresses of each trademark-specific franchisee organization associated with the franchise system being offered which we have created, sponsored or endorsed. Exhibit I-2 lists the independent franchisee organizations that have asked to be included in this disclosure document.

## ITEM 21: FINANCIAL STATEMENTS

Exhibit B contains our audited financial statements as of December 31, 2015, as well as our unaudited financial statements as of September 30, 2016. As we are a newly formed entity, we do not have three full years of audited financial statements and we have only begun franchising as of October 15, 2015. Our fiscal year end is December 31.

## ITEM 22: CONTRACTS

The following contracts are exhibits within this Disclosure Document:

Exhibit A-1: Managing Franchise Operator Agreement

Exhibit A-2: Franchise Agreement

Exhibit E: State Addenda to the Disclosure Document

## ITEM 23: RECEIPTS

The final pages of this Disclosure Document (Exhibit J of the Disclosure Document) include two copies of a detachable document acknowledging your receipt of the Disclosure Document. If that page, or any other pages or exhibits are missing from your copy, please notify us immediately.



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# EXHIBIT A-1
# TO THE FRANCHISE DISCLOSURE DOCUMENT

## FRANCHISE OPERATOR AGREEMENT

## (MANAGING OPERATOR MODEL)

# 1-800 WATER DAMAGE MANAGING FRANCHISE OPERATOR AGREEMENT

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**Exhibits:**


Exhibit A – Confidentiality and Restrictive Covenant Agreement
Exhibit B - ROBS Addendum to Franchise Operator Agreement

# FRANCHISE OPERATOR AGREEMENT

**THIS FRANCHISE OPERATOR AGREEMENT ("AGREEMENT")**, made this ____ day of __201__, by and between 1 800 WATER DAMAGE INTERNATIONAL, LLC, a Delaware limited liability company with an address at 731 Fairfield Court, Ann Arbor, Michigan 48108 (the "Company", "we" and "us"); [_____] a [_____] limited liability company with an address at [_____] ("Operating Entity"); and _____ an individual with an address at _____ _____("Franchise Managing Operator").

## BACKGROUND

A. Company has developed a system (the "System") for the management and operation of a business offering water damage restoration services, carpet cleaning services, mold remediation, odor removal, fire, smoke and related restoration and cleaning services, which services list may be amended to include other services and products from time-to-time in the operations manual or otherwise (collectively, the "Remediation Services") and minor drywall removal and installation, hardwood floor repair, tile floor repair, painting, and carpet repair and installation (the "Minor Reconstruction Services") and ancillary products and services under the 1-800 WATER DAMAGE® mark or other marks Company may specify (the "Proprietary Marks") using methods and operating systems as defined in Company's proprietary Operations Manuals (the Remediation Services and the Minor Reconstruction Services shall be collectively referred to herein as the "Services").

B. Operating Entity shall establish and own a 1-800 WATER DAMAGE business (the "Business") located at [_____] which shall be operated within the following territory [_____] (the "Territory").

C. Franchise Managing Operator desires to enter into an agreement with Company and Operating Entity to obtain the rights to manage the Business for Operating Entity's benefit using the Proprietary Marks and System.

D. Operating Entity wishes to engage Franchise Managing Operator to perform certain duties with respect to the management and operation of the Business and Franchise Managing Operator has agreed to such engagement.

**NOW THEREFORE**, in consideration of the foregoing recitals and the mutual promises, commitments, and understandings contained herein and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Company, Operating Entity and Franchise Managing Operator agree as follows:

## AGREEMENT

1. **Appointment; Protected Territory; Reserved Rights.**

1.1 **Appointment**. Operating Entity hereby appoints Franchise Managing Operator, and Franchise Managing Operator accepts the right and obligation to operate and manage the Business under Company's System and Proprietary Marks for the benefit of the Operating Entity, within the authority granted to Franchise Managing Operator under this Agreement and in accordance with Company's standards and specifications as outlined in Company's Operations Manuals and any revisions or amendments to same, in a manner which enhances the value of Company's System and Proprietary Marks, and in compliance with all applicable laws, ordinances and regulations. During the Term, Franchise Managing Operator shall be an employee of Operating Entity and may perform the Services offered by the Business for customers or Service Locations within the Territory. A "Service Location" is the physical location or address where the Services are performed. Franchise Managing Operator may also perform services for customers or Service Locations outside of the Territory if the customer initiates the request or in the event Company refers the lead to the Business.

1.2 **Protected Territory; Restrictions**.

1.2.1 Except as otherwise provided for in the Agreement, so long as Franchise Managing Operator is in compliance with the terms and conditions of this Agreement, Company will not establish nor license anyone else to establish another business operating under the System and the Proprietary Marks at any location within the Territory as defined in the Background section of this Agreement, the terms of which are hereby incorporated into this Agreement. The Business will not receive an exclusive territory. Franchise Managing Operator acknowledges and agrees that other existing System franchisees, franchise managing operators and businesses owned by Company, its affiliates and parent may service customers or Service Locations within the Territory. At Franchise Managing Operator's option, the Business may subcontract the provision of Services to another System franchisee, Company owned business or franchise managing operator, in which event the Business will pay the franchisee, Company owned business or franchise managing operator the then-current rates established by Company, as the same may be revised. Additionally, if Franchise Managing Operator is unable to service a customer or Service Location within or outside of the Territory, Franchise Managing Operator must refer the lead to Company and Company shall have the right to select another System franchisee, Company owned business, franchise managing operator, or its affiliates, to perform the work and neither Franchise Managing Operator nor the Business shall be entitled to any proceeds from the provision of Services.

1.2.2 Franchise Managing Operator shall only market the Services and solicit customers or Service Locations within the Territory. Except as provided for in Section 1.2.3, Franchise Managing Operator may not market, advertise or solicit in any way, any customer or Service Location outside of the Territory without Company's prior written consent. In the event that Franchise Managing Operator advertises or solicits customers or Service Locations outside of the Territory without Company's prior written consent, Franchise Managing Operator will pay Company a fee equal to the greater of $500 or the cost of the job for each incident of unauthorized advertising or solicitation (the "Improper Marketing Fee"). The Improper Marketing Service Fee will be deducted from Franchise Managing Operator's Operator Profit as

described herein in Section 6.2. The Improper Marketing Fee is in addition to, and not in lieu of, any other rights Company has under this Agreement.

1.2.3 Notwithstanding the provisions of Section 1.2.2, Franchise Managing Operator may market to and/or solicit insurance providers, third-party administrators, and property managers located outside of the Territory, provided that the insurance providers' customers or the Service Location is within the Territory.

1.2.4 Upon your successful completion of training, we may, at our discretion, require a transitional period of approximately 90 days ("Transitional Period"), in which you and or your Service Technician will have the opportunity to observe a customer service call for customer locations within your Territory which exceed your current level of experience and expertise. Depending on the scope of work, we reserve the right to refer any jobs within your Territory to a neighboring franchisee, Franchise Managing Operator or Company or affiliate owned location during the Transitional Period and require you to attend such service calls. In certain situations, neither you nor the Business will receive any compensation or proceeds from attending such service calls during the Transitional Period. We reserve the right to extend the 90 day Transitional Period at our sole discretion.

1.3 **Reserved Rights**. Company and its affiliates retain, as they deem appropriate, the rights to:

i. establish, and license others to establish, businesses operating under the System and the Proprietary Marks at any location outside of the Territory;

ii. establish, and license others to establish, businesses operating under the System and the Proprietary Marks in the Territory, or allow other System franchisees, franchise managing operators or Company owned businesses to market and solicit customers and Service Locations within the Territory in the event the Business fails to achieve the required Gross Sales Requirement and/or Minimum Management Fee Requirements as described in Section 1.7 of this Agreement;

iii. solicit, market to and build National Account relationships as described in Section 1.5 of this Agreement, whose offices or Service Locations may be located within or outside the Territory;

iv. acquire businesses providing services similar to those provided under the System within and outside the Territory and to be acquired by such a business;

v. sell products or services under the Proprietary Marks within and outside the Territory through any method of distribution, although within the Territory, it may not be through a System business located within the Territory. This includes sales of products using the Proprietary Marks through Alternative Distribution Channels; and

vi. engage in any other activities not expressly prohibited in this Agreement.

1.4 **Major Events**. In the event of national, regional or local catastrophic event, significant weather event, or any single large loss project (each a "Major Event") within or outside of the Territory, Company, its parent or affiliates shall have the sole right to direct and control the provision of Services. Franchise Managing Operator acknowledges and agrees that upon a Major Event, Company, its parent or affiliates, other System franchisees and franchise managing operators will be authorized to perform Services within the Territory and neither Franchise Managing Operator nor the Business will be entitled to any proceeds from the provision of Services performed by third parties within the Territory. Additionally, upon a Major Event, Company may require Franchise Managing Operator to mobilize or dispatch the Business' technicians and equipment and supplies to any site or sites, regardless of the distance from the Territory.

1.5 **National Accounts**. Company has the exclusive right to negotiate and enter into agreements or approve forms of agreement to provide services to "National Account" customers. The term "National Account" means any customer which on its own behalf or through agents, licensees, or other third parties owns, manages, controls or otherwise has responsibility for a business in more than one (1) location, including but not limited to national insurance companies, regardless of the aggregate contract amount of the Services to be performed. Any dispute as to whether a particular customer is a National Account shall be determined by Company in its sole discretion and its determination shall be final and binding. Following the execution of a contract with or the acceptance of a bid by a National Account customer which contemplates the provision of Services to one (1) or more National Account customers who are located in the Territory, Company may, if Franchise Managing Operator is qualified to perform the Services and conditioned upon Franchise Managing Operator's substantial compliance with the terms of this Agreement and any other applicable agreements, provide Franchise Managing Operator the opportunity to perform such Services pursuant to the terms and conditions of the National Account contract or on such terms and conditions as Company, at its sole discretion, determines are appropriate. You agree to provide services to all National Account customer referrals within the Territory. You further agree to provide all services in strict adherence to the WATER DAMAGE performance and process standards and all service guidelines and performance standards of the National Account. You may be required to enter into a service agreement to participate in certain National Accounts. If Managing Operator is not able to provide services to a National Account customer in conformity with the terms and conditions of the National Account contract, or fails to make an election within the time Company specifies after being offered the opportunity, Company has the right, exercisable in its sole discretion, to (i) provide, directly or through any affiliate or other franchisee or franchise managing operator, services to the National Account customer; and/or (ii) contract with another party to provide such services to the National Account customer. In either event, neither Franchise Managing Operator nor the Business shall be entitled to any proceeds from the provision of Services provided to the National Account customer.

1.6 **Alternative Distribution Channels**. Company, its parent and affiliates retain the right to sell products and services under the Proprietary Marks within and outside the Territory through any method of distribution, including, but not limited to, the Internet, catalog sales, telemarketing, or other direct marketing sales (collectively, the "Alternative Distribution

Channels"). Operating Manager may not use Alternative Distribution Channels to make sales outside or inside the Territory and Operating Manager and the Business may not receive compensation for Company sales through Alternative Distribution Channels except as described in the following paragraph.

1.7 **Minimum Gross Sales Requirement and Minimum Management Fee Requirement**.

1.7.1 Beginning in the Business' second year of operations, the Business will be required to meet the following minimum Gross Sales requirements (the "Minimum Gross Sales Requirement") during the Term of this Agreement:

| **Year in Operation** | **Minimum Gross Sales Requirement** |
|---|---|
| Year Two | $225,000 annually; $18,750 per month |
| Year Three | $475,000 annually; $39,583 per month |
| Year Four | $725,000 annually; $60,417 per month |
| Year Five and beyond | $975,000 annually; $81,250 per month |

1.7.2 Additionally, beginning in the Business' second year of operations, the Business must pay Company the following minimum Management Fees (as described in Section 5.1 of this Agreement) and Technology Fees (as described in Section 5.2 of this Agreement) (collectively, the "Minimum Management Fee Requirement"):

| **Year in Operation** | **Minimum Management Fee Requirement** |
|---|---|
| Year Two | $22,500 annually; $1,875 per month |
| Year Three | $57,000 annually; $4,750 per month |
| Year Four | $87,000 annually; $7,250 per month |
| Year Five and beyond | $117,000 annually; $9,750 per month |

If the Business fails to achieve the required Gross Sales Requirement and/or the Minimum Management Fee Requirement during any consecutive three-month period, Company may terminate this Agreement, elect to establish another franchisee, franchise managing operator or Company owned business in the Territory or allow other franchisees, franchise managing operators and/or Company owned businesses to advertise, solicit and service customers and Service Locations within the Territory.

2. **Term.**

2.1. **Initial Term.** The initial term (the "Term") of this Agreement shall be for a period of 10 years, commencing upon the execution of this Agreement by Company.

2.2. **Renewal**. At the conclusion of the Term, this Agreement may be renewed for two successive additional 10-year terms, unless, not later than 90 days prior to the then-current expiration date, either party notifies the other in writing that the Agreement is not being renewed. In order to renew, Franchise Managing Operator must meet all of the conditions below:

2.2.1 Franchise Managing Operator gives Company written notice of such election to renew not less than six months nor more than nine months prior to the end of the Term;

2.2.2 Franchise Managing Operator is not in breach of any of the provisions of this Agreement, or any other agreements between Franchise Managing Operator, or any entity in which Franchise Managing Operator is a principal, and Company, Operating Entity and their parents or affiliates, or the Business' approved or designated suppliers;

2.2.3 Franchise Managing Operator has satisfied all monetary obligations towards Company, Operating Entity, their parents or affiliates, and the Business' suppliers and vendors;

2.2.4 Franchise Managing Operator executes Company's then-current form of Franchise Operator Agreement, the terms of which may vary materially from the terms of this Agreement, provided that the size of the Territory will not change;

2.2.5 Franchise Managing Operator pays to Company or its designee a renewal fee equal to 10% of Company's then-current initial fee;

2.2.6 Franchise Managing Operator satisfies Company's then-current training requirements, if any, for renewing franchisees at Franchise Managing Operator's expense; and

2.2.7 Franchise Managing Operator signs a general release in the form Company prescribes, which will not be inconsistent with any applicable state regulations relating to renewals.

2.2.8 Franchise Managing Operator has not received notices three or more times during the previous 30 months of the term for failure to comply with the terms of the Franchise Operator Agreement

3. **Initial Fee.** The Franchise Managing Operator shall pay Company an initial fee of $79,000 (the "Initial Fee") upon the execution of this Agreement, which shall be deemed fully earned and non-refundable upon payment. For a Territory with more than 350,000 in population, the Initial Fee will be $79,000, plus $225 per thousand in population in excess of 350,000 (the "Additional Fee"). For example, the Initial Fee for a single territory with 385,000 in population will be computed as follows:

$$\$79,000 = (35x\$225) = \$86,875$$

As the territories are generally defined by zip codes, we reserve the right not to charge the Additional Fee if we are unable to meet the 350,000 population count without exceeding due to highly populated areas. Each territory will have a maximum of 500,000 people. The purchase of more than 500,000 in population in the aggregate at any time during the term of the Agreement will require the payment of an additional Initial Fee

The Initial Fee shall be subject to a $5,000 discount for veterans of the U.S. Armed Forces who have been honorably discharged and provide Company with documentation of the same.

## 4. Responsibilities of Franchise Managing Operator.

4.1 **Duties**. Franchise Managing Operator shall personally supervise the day-to-day operations of the Business and devote Franchise Managing Operator's personal full-time attention and best efforts to the management and operation of the Business. Franchise Managing Operator shall perform all functions incidental thereto as shall from time to time be specified by the Operating Entity or as are customary in the industry including, without limitation: (i) to hire, fire, train and supervise the Operating Entity's employees in accordance with Company's standards and specifications; (ii) to market the Services and solicit customers within the Territory; (iii) to schedule service calls; (iv) to maintain the Business' equipment and office; (v) to enter into, execute, acknowledge and deliver all contracts, agreements or other instruments necessary or appropriate to carry out Franchise Managing Operator's responsibilities under this Agreement upon the consent of the Operating Entity; and (vi) to perform other tasks and responsibilities required to operate the Business as the Operating Entity may require from time to time. Given the emergency nature of the Services provided by the Business, Franchise Managing Operator agrees to be available 24 hours a day, seven days a week to respond to Service requests. Except as otherwise provided in this Agreement or permitted by the Operating Entity, Franchise Managing Operator will not have the right or authority at any time, without the express written consent of the Operating Entity, to: (i) incur any liability on the part of the Operating Entity; or (ii) enter into any debt or credit obligation on behalf of the Operating Entity.

4.2. **Permits**. Prior to commencing operations, Franchise Managing Operator shall obtain all necessary permits, approvals and certifications necessary to operate the Business within the Territory and thereafter maintain the same throughout the Term of this Agreement.

4.3 **Jumpstart and Initial Training**.

4.3.1 The Jumpstart program is our preparation program that includes numerous pre-opening activities ("Jumpstart"). Jumpstart is a self-guided process, with additional guidance from our training team, along with the Operations Manuals. You must review the Operations Manuals, as defined in Section 7.2, complete a Territory review, and coordinate your initial advertising program. All Jumpstart activities are to be completed before attending initial training and before the opening of the Franchised Business and are to be conducted in your hometown by you with assistance from our home office staff. All costs associated with Jumpstart are included in the Initial Fee. During Jumpstart, we will schedule initial training (the "Initial Training") for you to attend at a later time.

4.3.2 Before you begin operating the Business and after you have completed Jumpstart, we will provide our Initial Training to you. You must complete the Initial Training to our satisfaction within three months of signing this Agreement, and failure to do so will result in the termination of this Agreement. The Initial Training will last up to 17 days in duration at our headquarters or another location designated by us. The Initial Training may not commence until you have paid all fees due to us. We reserve the right to modify the Initial Training Program, including the training materials and subjects taught at any time. The cost of Initial Training is included in the Initial Fee.

4.3.3 You may designate, with our approval and on a "space available" basis, additional persons to attend other sessions of the Initial Training. All costs associated with the additional persons attendance will be incurred by the Operating Entity as an operating expense. In addition, each person we approve to attend the Initial Training Program will be required to sign our then current confidentiality and non-compete agreement before the start of Initial Training.

Managing Operator must attend the Company's annual convention (the "Annual Convention") every year and Franchise Managing Operator and the Business' service technicians may be required to attend periodic refresher training courses and conferences, not to exceed one convention/conference per year, at the times and locations Company determines, and for which Company may charge fees. Such training may, at Company's option, be online. Company shall determine the duration, curriculum, and/or location of any online or other additional training. Franchise Managing Operator's and service technicians responsible travel and living expenses incurred while attending such additional courses, conferences, and sessions shall be reimbursed by the Operating Entity and deducted from the Business as an Operating Expense.

4.4 **Office Location**. Franchise Managing Operator will manage the Business from an office (the "Office") located within the Territory. Franchise Managing Operator is responsible for identifying potential locations within the Territory which meet Company's site selection criteria as stated in the Manual. Company must approve such Office. Once approved, Operating Entity will enter into a lease for the approved Office. Franchise Managing Operator may not relocate the Office without Company's prior written consent, which Company may grant or withhold at its sole discretion.

4.5 **Opening**. Franchise Managing Operator must commence operations of the Business within three (3) months of signing this Agreement. Provided that this three month period shall be reasonable extended in the event that the actions or omissions of the Operating Entity result in a delay in securing an Office or supply equipment to the Business.

4.6 **Computer Software.** Managing Operator is required to use the WATER DAMAGE franchise software management system (the "WATER DAMAGE Software", which consists of software program(s) which you must use to maintain customer records, bid on jobs, create estimates and operate the WATER DAMAGE Business. We will provide you with the WATER DAMAGE Software for use in the operation of the WATER DAMAGE Business. Managing Operator is required to enter all work performed in the WATER DAMAGE Software within 24 hours of the start of the job. The Operating Entity will supply the computer and we

will have the right to access the computer system, the data in it, and the reports it generates at any time, either electronically or at the Business.

5. **Ongoing Fees; Calculation and Payment of Operating Expenses.**

5.1 **Management Fee**. Franchise Managing Operator acknowledges that Company or its affiliate will manage all back office functions of the Business, including all accounts payable, customer invoicing and collections, payroll and all costs associated with the System's call center. In consideration of these services, Operating Entity shall pay Company a management fee of 7% of the Business' Gross Sales of Remediation Services during the Business' first year, 9% of the Business' Gross Sales of Remediation Services during the Business' second year and 11% of the Business' Gross Sales of Remediation Services during remaining term of this Agreement, and 5% of the Business' Gross Sales of Minor Reconstruction Services (the "Management Fee").

"Gross Sales" is defined as all revenue generated from operating the Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise. Company will provide Franchise Managing Operator with monthly unaudited financial statements of the Business in consideration of the payment of the Management Fee.

5.2 **Technology Fee**. Franchise Managing Operator acknowledges that Company or its affiliates will provide all Software and software upgrades and updates necessary to operate the Business. In consideration of these services, the Business shall pay Company a monthly technology fee equal to 1% of the Business' Gross Sales (the "Technology Fee").

5.3 **Advertising Fees**.

5.3.1 Franchise Managing Operator acknowledges that Operating Entity will be required to contribute 1% of its Gross Sales during the Business' first and second year and 2% of its Gross Sales during the remaining term of the Franchise Operator Agreement, to the System's National Marketing Fund on a monthly basis (the "National Marketing Fund Contribution"). National Marketing Fund Contribution shall be deducted from the Business' Gross Sales as an Operating Expense. Company or its designee will deduct National Marketing Fund Contributions directly from the Operating Entity's bank account. Company shall have the right to require that any advertising cooperative or franchisee advisory council be formed, changed, dissolved or merged. Company will use the National Marketing Fund Contributions, in its sole discretion, to develop, produce and distribute national, regional and/or local advertising and to create advertising materials and public relations programs which promote, in Company's sole judgment, the services offered by System franchisees and franchise managing operators. Company shall have the sole right to determine contributions and expenditures from the National Marketing Fund, or any other advertising program, and the sole authority to determine, without limitation, the selection of the advertising materials and programs, provided, however, that Company will make a good faith effort to expend National Marketing Fund Contributions in the general best interests of the System on a national or regional basis. Company may use the National Marketing Fund to satisfy any and all costs of maintaining, administering, directing,

preparing, producing, and implementing advertising, including the cost of: (i) preparing, producing, and implementing television, radio, magazine and newspaper advertising campaigns; (ii) direct mail and outdoor billboard advertising; (iii) public relations activities and advertising agencies; (iv) developing and maintaining an Internet website; and (v) personnel and other departmental costs for advertising that Company internally administers or prepares. Nevertheless, Franchise Managing Operator acknowledges that not all System franchisees and franchise managing operators will benefit directly or on a pro rata basis from such expenditures. While Company does not anticipate that any part of the National Marketing Fund Contributions will be used for advertising which is principally a solicitation for franchise managing operator businesses, Company reserves the right to use the National Marketing Fund for public relations or recognition of the 1800 WATER DAMAGE® brand, for the creation and maintenance of a website, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." Company may periodically assist franchisees and franchise managing operators to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives ("Surveys"). The cost of such programs will be borne by the National Marketing Fund. Company has the right to reimburse itself from the National Marketing Fund Contributions for such reasonable costs and overhead, if any, that Company may incur in activities reasonably related to the direction and implementation of the National Marketing Fund.

Company is not required to contribute to the National Marketing Fund, and Company may, but is not obligated to, advance money to the National Marketing Fund to fund National Marketing Fund programs. In the event that Company advances monies to the National Marketing Fund, Company will determine, in its sole discretion, the manner and timing for the repayment of some or all of the funds Company advances. Company will prepare on an annual basis, within 120 days of the end of the fiscal year, and make available to Franchise Managing Operator upon written request, a statement of contributions and expenditures for the National Marketing Fund. The National Marketing Fund does not have to be independently audited.

5.3.2 Franchise Managing Operator acknowledges that the Company has the right to require the Operating Entity to spend an amount up to 5% of the Business' gross sales per month on local advertising (the "Local Advertising Contribution"). The Local Advertising Contribution will decrease to 2.5% between years six and ten of the Term. You will assist us to best determine the most effective allocation of the Local Advertising Contribution. The Local Advertising Contribution shall be deducted from the Business' Gross Sales as an Operating Expense.

5.3.3 All advertising to be used in connection with the Business must be approved by Company in writing before use. Franchise Managing Operator shall use Company's approved advertising and marketing materials or receive Company's written approval of any and all other advertising and marketing materials from Company before their first use. In order to obtain approval of advertising and marketing materials, Franchise Managing Operator must submit such proposed advertising material to Company for review at least 10 business days before the proposed first use. If Company takes no action within 10 business days of its receipt of the material, the materials shall be deemed disapproved and Franchise Managing Operator may not use such materials. The approval or disapproval is at Company's sole discretion.

Company may also, at its sole discretion, require Franchise Managing Operator to immediately discontinue use of any advertising or marketing materials at any time, even if previously approved or provided by Company. All advertising and marketing materials used by the Business must meet Company's then-current standards and specifications. Franchise Managing Operator acknowledges and agrees that the Local Advertising Contribution must be expended by the Business regardless of the amount(s) spent by other System franchisees and franchise managing operators on local advertising.

5.3.4 Franchise Managing Operator acknowledges that Company may establish and require the Operating Entity to join a local advertising cooperative for the Territory's market. If the Operating Entity joins a cooperative, it shall contribute to the cooperative an amount determined by the local advertising cooperative (but not to exceed two percent (2%) of your Gross Sales), participate in its activities, and abide by its governing documents. Company may require that advertising cooperative rules, governing documents, and expenditures be subject to Company's approval. Company may establish an advisory or advertising council of operating entities or franchisees for advice on advertising policies and other matters.

5.4 **Operating Expenses**. All Operating Expenses incurred by the Operating Entity shall be deducted on an ongoing basis from the Operating Entity's receipts from the operation of the Business. "Operating Expenses" are defined as all vendor and subcontractor expenses, Management Fees, Technology Fees, rent, utilities, insurance, inventory, supplies, vehicle expenses, including fuel, equipment maintenance and replacement expenses, computer hardware and software upgrades, National Marketing Fund Contributions, Local Advertising Contributions, employee wages, training expenses (including all training fees for technicians and employees), equipment repairs and maintenance, insurance, taxes (excluding income taxes), internet service fees, depreciation and interest, and any other cost or expense related to the operation of the Business. Company or its affiliate will provide Franchise Managing Operator with monthly unaudited financial statements of the Business.

5.5 **Books and Records**. Operating Entity shall keep such books of account and other records with respect to the operations of the Business as will sufficiently explain the transactions and financial position of the Business and enable financial statements to be prepared in accordance with generally accepted accounting principles as are in effect from time to time and shall cause such books and records to be kept in a manner as will enable them to be properly audited. Franchise Managing Operator shall assist Company, at Company's request, in preparing such books and records.

5.6 **Bank Accounts**. Operating Entity shall open and maintain banks accounts for the Business. All such amounts shall be and remain the property of the Operating Entity, and shall be received, held and disbursed by Operating Entity for the purposes specified in this Agreement. There shall not be deposited in any of such accounts any funds other than funds belonging to the Operating Entity, and no funds shall in any way be commingled with funds of Franchise Managing Operator.

5.7 **Late Fees**. For all Management Fees, Technology Fees, Advertising Fees, and other amounts that are not received by Company within five (5) days after the due date, Operating Entity shall pay a late fee the higher of: (a) $50 per week; or (b) five percent (5%) of the total amount (the "Late Fee"). Managing Operating shall pay a Late Fee in the same amount for any payments required from Franchise Managing Operator to either Operating Entity or Company that are not received within five (5) days after the due date. All Late Fees will be deducted from the Operator Profit, as defined in Section 6.3 of this Agreement.

5.8 **Late Report Fee**. For any report, statement, or return required by this Agreement that Operating Entity does not timely provide, Operating Entity shall pay a late report fee equal to $20 per week that the document is late (the "Late Report Fee"). All Late Report Fees will be deducted from the Operator Profit, as defined in Section 6.3 of this Agreement.

5.9 **Interest**. Company may impose interest on any unpaid amounts due and owing to Company by Operating Entity or Franchise Managing Operator at the rate of eighteen percent (18%) per annum (or the highest rate allowed by law, whichever is lower) from the date payment is due to the date payment is received by Company. The owing party shall pay Company for all costs Company incurs in the collection of any unpaid and past due Management Fees, Technology Fees, Advertising Fees, or any other amounts due, including reasonable accounting and legal fees. All interest will be deducted from the Operator Profit, as defined in Section 6.3 of this Agreement.

## 6. Franchise Managing Operator's Compensation.

6.1 **First Year Salary**. During the Business' first year of operations, the Operating Entity shall pay the Franchise Managing Operator an annual salary of $30,000.00, paid in bi-weekly installments in accordance with standard payroll practices of the Operating Entity, subject to any required withholding (the "Franchise Managing Operator Salary"). If the Franchise Managing Operator purchases two Territories under multiple, simultaneously executed operating agreements, the first year Franchise Managing Operator Salary will be $40,000.00. If the Franchise Managing Operator purchases four Territories under multiple, simultaneously executed operating agreements, the first year Franchise Managing Operator Salary will be $60,000.00. Operating Entity shall commence payment of the Franchise Managing Operator Salary on the first day of the Initial Training Program.

6.2 **Draw against Franchise Managing Operator Profit**. In addition to the Managing Operator Salary and any other benefits or compensation payable hereunder, Operating Entity shall provide Franchise Managing Operator with a draw as an advance against the future Operator Profit, as defined in Section 6.3 below (the "Draw"). Operating Entity shall pay the Draw in bi-weekly installments and subject to any required withholding. During the first year of operations, the Operating Entity shall pay the amount of the Draw at its discretion. Beginning in the second year of operations, the Draw shall equal 50% of the Operator Profit of the prior year. The Operating Entity may, as part of the ongoing review of Franchise Managing Operator's performance, cease, adjust, increase, decrease or continue the Draw.

6.3 **Franchise Managing Operator Profit**. Provided that the Minimum Gross Sales Requirement and the Minimum Management Fee Requirement described in Section 1.7 are met, Franchise Managing Operator will be eligible to receive 50% of the Business's Gross Profit (the "Operator Profit"). "Gross Profit" means the Business's Gross Sales before taxes and after deducting all Operating Expenses, excluding depreciation and interest, as calculated on a cash basis and at the end of the calendar year.

If Operator Profit exceeds the amount of the Draw in any calendar year (a "Surplus"), the Operating Entity shall remit the Surplus, less the Draw as described in 6.2, to Franchise Managing Operator within 90 days after the close of the each calendar year. In the event the Draw exceeds the Operator Profit by any amount in any calendar year (a "Deficiency"), the Franchise Managing Operator shall pay the Operating Entity the Deficiency to the extent it exceeds any Franchise Managing Operator Salary plus additional amounts necessary to equal the minimum payment to which an hourly or exempt employee, as the case may be, is entitled to under federal and state law in the Franchise Managing Operator's municipality. The Deficiency shall be paid within 90 days of Franchise Managing Operator receiving notice of payment from Operating Entity. Franchise Managing Operator's failure to timely pay will constitute a default under this Agreement. In the instance of a Deficiency, the Operating Entity reserves the right to agree to alternative payment terms, including a deduction of the Deficiency from future Operator Profit in subsequent calendar years.

6.4 **Right to Receive Benefits**. Franchise Managing Operator may participate in any employee benefit plans generally provided by Company to Company's full-time employees from time to time, but only to the extent provided in such employee benefit plans and for so long as Company provides or offers such benefit plans. Company may modify, amend, or terminate such benefit plans at any time without prior notice.

## 7. Standard of Conduct and Operations.

7.1 **Compliance with Laws**. Franchise Managing Operator will comply with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities (including without limitation, all laws and other regulations pertaining to the operation of the Business) in the performance of Franchise Managing Operator's responsibilities under this Agreement.

7.2 **Compliance with Company's Standards**. Franchise Managing Operator acknowledges and agrees that Franchise Managing Operator's obligations set forth in this Agreement are reasonable and necessary for the operation of the Business and to maintain uniformity throughout the System. Franchise Managing Operator shall adhere to the standards and specifications set forth in this Agreement and Company's Operations Manuals (the "Operations Manuals") and any revisions or amendments to it. Franchise Managing Operator shall only offer for sale all products and services which Company prescribes and only those products and services which Company prescribes. Franchise Managing Operator may not offer any other products for sale without having received Company's prior written authorization. All

products and inventory used in connection with the Business must be purchased from Company's designated vendors. Franchise Managing Operator must ensure that the Business at all times maintains sufficient levels of supplies and inventory of the type, quantity and quality as specified in the Operations Manuals to adequately satisfy consumer demand.

7.3 **Operations.**

7.3.1. The Business may only offer Remediation Services and Minor Reconstruction Services. Franchise Managing Operator may not provide structural repair work, interior finishing, or electrical, mechanical, plumbing or heating services either through the Business or any other entity ("Reconstruction Services"). In the event that a customer of the Business requires Reconstruction Services, Franchise Managing Operator must refer the customer to Company, BELFOR Franchise Group, Inc., Company's Parent, or BELFOR USA, Inc. (each a "Required Referral").

7.3.2 Franchise Managing Operator must operate the Business for at least those months, hours and days that Company specifies in the Operations Manuals or otherwise in writing.

7.3.3 Franchise Managing Operator must maintain the Business and its equipment in working condition, and in accordance with all applicable requirements of law, and the Operations Manuals so as to preserve, maintain and enhance the reputation and goodwill of the System and the Proprietary Marks.

7.3.4 In order to protect Company's goodwill, Proprietary Marks and the System, all Services shall be offered only by properly trained personnel strictly in accordance with Company's standards and processes, and the Operations Manuals, as they may be changed from time to time. Franchise Managing Operator acknowledges that such standards and processes are integral to the System and failure to strictly adhere to such standards and processes shall be detrimental to the System and Proprietary Marks and shall constitute a default of this Agreement.

7.3.5 Franchise Managing Operator shall ensure that the Operating Entity employs at all times a sufficient number of qualified, competent personnel. All of Operating Entity's employees shall dress conforming to Company's standards, shall present a neat and clean appearance (wearing Company's required uniforms) in conformance with Company's reasonable standards and shall render competent, efficient service to the customers of the Business. Franchise Managing Operator shall immediately train and instruct the Operating Entity's employees in accordance with the practices, procedures and methods contained in the Operations Manuals, as they may be amended from time to time, and shall continue such training and instruction as long as each employee is employed by the Operating Entity. The Operations Manuals shall set forth the practices, procedures and methods to be utilized by Franchise Managing Operator.

8. **Insurance**. Operating Entity shall (i) maintain in the name of the Operating Entity and Company, with reputable insurers or underwriters, policies of insurance relating to the operations of the Business as Company may require from time to time, and (ii) cause to be paid all premiums and other sums payable in respect of maintaining such insurance. All costs associated with maintaining insurance shall be deducted as an Operating Expense. Franchise Managing Operator shall promptly notify Company of any claim, suit, action or proceeding against him or the Operating Entity or Company arising from the operation of the Business, or the performance by Franchise Managing Operator of his duties hereunder.

9. **Confidentiality**. During the Term of this Agreement, Franchise Managing Operator will receive information which Company and Operating Entity consider its trade secrets and confidential information ("Confidential Information"). Franchise Managing Operator will not, during the Term or thereafter, communicate, divulge, or use for the benefit of any other person, partnership, association, corporation, or limited liability company any Confidential Information including, without limitation, trade secrets, advertising strategies, price marketing mixes related to products and services offered by the System, supplier networks and pricing arrangements with suppliers, sales promotion aids, business forms, merchandising procedures, accounting procedures, marketing reports, inventory systems, copyrighted materials, and other methods, techniques and know-how concerning the operation of the Business which may be communicated to Franchise Managing Operator or of which Franchise Managing Operator may be apprised by virtue of Franchise Managing Operator's operation of the Business. Franchise Managing Operator also acknowledges and agrees that certain information, including (i) current customer and prospective customer names and addresses, (ii) information about credit extensions to customers, (iii) customer purchasing histories, (iv) rates charged to customers, and (v) customer invoices and reports (subsections (i)-(v) collectively "Customer Lists") also constitutes Company's and Operating Entity's trade secrets and Confidential Information. Franchise Managing Operator agrees that they may not enter the Customer Lists into any other software other than the WATER DAMAGE Software. Franchise Managing Operator may divulge Confidential Information only to those of the employees of Operating Entity that must have access to it in order to operate the Business. All information, knowledge, know-how, techniques, and other data which Company or Operating Entity designate as confidential will be deemed Confidential Information for purposes of this Agreement. Franchise Managing Operator further agrees to abide by any policies regarding customer privacy that Company may establish from time to time.

10. **Intellectual Property.**

10.1. **Restrictions on Use**. Franchise Managing Operator agrees that it will only use the Proprietary Marks authorized by Company which may be amended from time to time by Company, solely in connection with the operation of the Business in accordance with the terms of this Agreement. Franchise Managing Operator shall not license or sub-license its rights hereunder.

10.2. **Infringement**. Franchise Managing Operator shall promptly notify Company in writing of any infringement or imitation of the Proprietary Marks and shall do all things reasonably necessary in the opinion of Company to enable Company and its affiliate to protect and defend its rights therein. Company shall have the sole right to determine whether or not any action shall be taken on account of any infringement or imitation, and Franchise Managing Operator shall not take any such action without the prior written consent of Company.

10.3. **Title to Marks**. During the Term of this Agreement and thereafter Franchise Managing Operator will not attack the title or any rights of Company in the Proprietary Marks.

10.4. **Work Product.** All "Work Product" shall be the exclusive property of Company. If any of the Work Product may not, by operation of law or otherwise, be considered the exclusive property of Company, or if ownership of all right, title, and interest to the legal rights therein shall not otherwise vest exclusively in Company, Franchise Managing Operator hereby assigns to Company, and upon the future creation thereof automatically assigns to Company, without further consideration, the ownership of all Work Product. "Work Product" means all discoveries, designs, artwork, Trade Secrets, Confidential Information, trademarks, data, analyses, materials, formulas, strategic plans, acquisition strategies, research, documentation, computer programs, information technology systems, communication systems, audio systems, manufacturing systems, system designs, inventions (whether or not patentable), copyrightable subject matter, works of authorship, and other proprietary information or work product (including all worldwide rights therein under patent, copyright, trademark, trade secret, confidential information, moral rights and other property rights) which Franchise Managing Operator has made or conceived, or may make or conceive, either solely or jointly with others, while providing services to the Operating Entity or with the use of the time, material or facilities of the Operating Entity or relating to any actual or anticipated business of the Operating Entity known to Franchise Managing Operator during the Term of this Agreement, or suggested by or resulting from any task assigned to Franchise Managing Operator or work performed by Franchise Managing Operator for or on behalf of the Operating Entity. Company shall have the right to obtain and hold in its own name copyrights, patents, registrations, and any other protection available in the Work Product. Franchise Managing Operator shall promptly disclose any and all such Work Product to Company. Franchise Managing Operator agrees to perform, during or after termination of Franchise Managing Operator's employment by Company and without requiring Company to provide any further consideration therefore, such further acts as may be necessary or desirable to transfer, perfect and defend Company's ownership of the Work Product as requested by Company.

11. **Other Activities of Franchise Managing Operator**. Franchise Managing Operator acknowledges that by signing this Agreement, Franchise Managing Operator agrees to devote Franchise Managing Operator's full working time and personal best efforts to the day-to-day operation of the Business. Franchise Managing Operator will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques which Company has developed. Therefore, to protect Company and Operating Entity, Franchise Managing Operator agrees as follows:

11.1. **During the Term of This Agreement**. During the Term of this Agreement, neither Franchise Managing Operator or Franchise Managing Operator's immediate family members, which shall be defined as a spouse, sibling or adult child participating in the Business, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

11.1.1 own, maintain, engage in, be employed by, lend money to, extend credit to or have any interest in any other business offering or licensing water damage restoration services, carpet cleaning services, mold remediation, odor removal or related cleaning and remediation services, or Minor Reconstruction Services the same as or similar to the services sold by the Business and/or the services of the Company's affiliates (except for other franchises or authorizations Company enters into with Franchise Managing Operator);

11.1.2 own, maintain, engage in, be employed by, lend money to, extend credit to or have any interest in any other business offering or licensing construction services, including drywall removal and installation, structural work, interior finishing, and electrical, mechanical and plumbing and heating services (collectively the "Construction Services");

11.1.3 use Company's Confidential Information, System, Operations Manuals, Proprietary Marks, customer lists, Customer Information, trade secrets, trade dress, proprietary knowledge, or know-how, or any colorable imitations, in the design, development, or operation of any business other than the Business, unless specifically authorized in writing by Company;

11.1.4 employ or seek to employ any person who is at that time employed by Company, its affiliates or any other System franchisee or operator, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

11.1.5 divert or attempt to divert any business or customer of the Business or any Required Referral to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System.

11.2. **After the Term of This Agreement**. For a period of 24 months after the expiration and non-renewal, transfer or termination of this Agreement, Franchise Managing Operator shall not:

11.2.1 engage as an owner, shareholder, partner, director, officer, employee, consultant, salesperson, representative, or agent or in any other capacity in any business offering or licensing others to offer water damage restoration services, carpet cleaning services, mold remediation, odor removal and related cleaning and remediation services and/or the services of the Company's affiliates within: (i) the Territory; (ii) the geographic area encompassed by the territories of any WATER DAMAGE franchisee, WATER DAMAGE Company Store, or any other WATER DAMAGE business operators, as of the date of the termination or expiration of

this Agreement; or (iii) a geographic area that is contained in a circle having a radius of 100 miles outward from the outside boundary of the Territory;

11.2.2 employ or seek to employ any person who is at that time employed by Company, its affiliates or any other System franchisee or operator, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat;

11.2.3 solicit business from customers of the Business or contact any of Business' suppliers or vendors for any competitive business purpose; or

11.2.4 divert or attempt to divert any business or customer of the Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System.

11.3 **Intent and Enforcement**. It is the parties' intent that the provisions of this Section 11 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the non-competition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 11 by Franchise Managing Operator, or any immediate family member of Franchise Managing Operator, Company and Operating Entity shall be entitled to an injunction restraining such person from any such actual or threatened breach. Franchise Managing Operator agrees that in the event of the actual or threatened breach of this Section 11, Company's harm will be irreparable and that Company has no adequate remedy at law to prevent such harm. Franchise Managing Operator acknowledges and agrees on Franchise Managing Operator's own behalf and on behalf of the persons who are liable under this Section 11 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 11 in no way prevent any such person from earning a living. Franchise Managing Operator further acknowledges and agrees that the time limitation of this Section 11 shall be tolled during any default under this Section.

11.4 **Immediate Family Members.** Franchise Managing Operator will ensure that Franchise Managing Operator's immediate family members will sign and comply with the Confidentiality and Non-Compete Agreement attached as Exhibit A hereto, or as Company, in Company's sole discretion, otherwise prescribe. Franchise Managing Operator must provide Company with a copy of each executed agreement.

12. **Rights of Company**.

12.1 **Fully Informed**. Franchise Managing Operator shall keep Company fully apprised, on a timely basis, of all significant decisions made by Franchise Managing Operator concerning the Business and the reasons underlying all significant expenditures hereunder.

12.2 **Access to Operations**. Company shall at its own risk and expense have full access to the Office and the Operating Entity's equipment during customary working hours, with the right to observe and inspect any and all operations being conducted, all inventory, equipment, and other property, and books, records, accounts and reports relating to the operation of the Business.

13. **Responsibilities of Company and Operating Entity**. During the Term of this Agreement, Company shall perform the following obligations:

13.1 **Company's Obligations**. Company or its designee will provide the following assistance:

13.1.1 Designate the Territory.

13.1.2 Loan to Franchise Managing Operator a copy of Company's Operations Manuals and other proprietary materials as Company may publish and distribute periodically.

13.1.3 Give prior approval for use of business forms, business stationery, business cards, advertising materials, permanent materials, and forms that Franchise Managing Operator intends to use. Company will continue to do this after the Business commences operations.

13.1.4 Give prior approval, at Company's sole discretion, to all local marketing, advertising, and promotional material prepared by Franchise Managing Operator within ten days of Company's receipt of the proposed materials if such materials differ from materials provided by Company. Company will continue to do this after the Business commences operations.

13.1.5 Provide Franchise Managing Operator with Initial Training.

13.1.6 Establish and administer a program for collecting and accounting for the sales receipts of the Business and paying from the Business' Gross Sales all Operating Expenses connected with the operation of the Business, including employee salaries, rent for the Office, National Advertising Fund contributions, insurance premiums, and all other expenses incurred in the operation of the Business, and provide Franchise Managing Operator with monthly unaudited financial statements of the Business in consideration of the payment of the Management Fee.

13.1.7 Provide new products, services and methods that Company may have discovered or have developed for the System.

13.1.8 Formulate and implement marketing, advertising, and promotional programs, including the National Advertising Fund, using the merchandising, advertising, and research data and advice as Company may periodically develop for use in the Territory.

13.1.9 Provide Franchise Managing Operator with other business and marketing advice.

13.1.10 Provide support for the System Software in consideration of the Technology Fee.

13.1.11 Maintain a 24-hour call-in center and distribute leads, in Company's sole discretion, to franchisees and Franchise Managing Operators for customers and service locations within the Territory.

13.1.12 Provide periodic modifications to the Operations Manuals to reflect changes in the System standards.

13.1.13 Provide periodic refresher training courses and conferences, not to exceed one per year.

13.2 **Operating Entity's Obligations**. Operating Entity or its designee will provide the following assistance:

13.2.1 Select the Office site and negotiate any lease or purchase of any Office, conform the Office to local ordinances and codes and obtain any required permits.

13.2.2 Provide all equipment, including a vehicle, office furniture, marketing materials, trademarked apparel, initial cleaning products, trademarked supplies, and owner uniforms necessary to operate the Business.

13.2.3 Provide insurance coverage for the Business.

13.2.4 Establish a bank account for the Business.

13.2.5 Provide ongoing materials, supplies, equipment, inventory and products for the ongoing operation of the Business, the expenses of which shall be deducted as an Operating Expense

## 14. Assignment.

14.1 **Company and Operating Entity's Right to Transfer**. This Agreement inures to the benefit of Operating Entity, Company and its successors and assigns. Company and Operating Entity have the right to sell, transfer, assign, and/or encumber all or any part of their assets, including the assets of the Business, and interest in, and rights and obligations under this Agreement in their sole discretion, without obtaining Franchise Managing Operator's consent, provided that such sale or assignment will not prevent Franchise Managing Operator from operating the Business in accordance with the terms of this Agreement.

14.2 **Franchise Managing Operator's Right to Transfer**. Franchise Managing Operator acknowledges that the rights and duties set forth in this Agreement are personal to Franchise Managing Operator, and that Company and Operating Entity have entered into this Agreement in reliance on Franchise Managing Operator's personal attributes and financial capacity. Franchise Managing Operator will not, without Company's prior written consent, by operation of law or otherwise, sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any interest in this Agreement, nor offer, permit or suffer the same. Franchise Managing Operator agrees that any attempted or completed sale, assignment, transfer, or other act referred to in this Section 14.2 without the prior written consent of Company will be null and void and will constitute a material breach, which is good cause for immediate termination of this Agreement, without prior notice or opportunity to cure that material breach. Except as described in Section 15.5, Franchise Managing Operator may not assign or transfer for any reason Franchise Managing Operator's rights, interests, obligations and duties as contained in this Agreement during the first five years of the Term, without Company's express written consent.

14.3 **Conditions of Company's Consent to Transfer**. If Franchise Managing Operator wishes to transfer or assign the rights, interests, obligations and duties as contained in this Agreement to a third party, Franchise Managing Operator must give written notice of the proposed transfer to Company, setting forth in detail the name, address and background of the proposed transferee, the consideration for the transfer and any other information that Company may reasonably require. A copy of any agreements relating to the proposed transfer must accompany the notice. After reviewing the notice Company will decide whether to grant its consent to such transfer, which consent will not be unreasonably withheld. Company will condition its approval of the transfer upon the fulfillment of the following conditions:

14.3.1 The proposed transferee must follow the same application procedures as a new franchise managing operator and must: (i) meet and satisfy Company's then-current educational, managerial and business standards; (ii) possess a good moral character, business reputation and credit rating; (iii) have the aptitude and ability to conduct the business to be transferred; and (iv) have adequate financial resources and capital to meet their personal financial obligations. However, transferee cannot be in the same business as Company either as licensor, independent operator or licensee of any other business or chain which is similar in nature or in competition with Company or the System, except that the transferee may be an existing franchisee or franchise managing operator of Company.

14.3.2 Any and all of Franchise Managing Operator's accrued monetary obligations to Company, Operating Entity and their subsidiaries, affiliates, and approved and designated vendors are paid in full.

14.3.3 Franchise Managing Operator has cured all existing defaults under this Agreement, or any other agreement between Franchise Managing Operator, or any entity which Franchise Managing Operator is a principal, and Company, Operating Entity and their affiliates,

and Company's designated and approved suppliers and vendors, within the period permitted for cure and has substantially complied with all such agreements during their respective terms.

14.3.4 Franchise Managing Operator must comply with the post termination obligations contained in this Agreement, including but not limited to complying with Sections 9 (Confidentiality), 11.2 (Non-Competition) and 18.1 (Indemnification) of this Agreement.

14.3.5 A transfer fee of $9,900 (the "Transfer Fee") must be paid in full to Company to cover Company's administrative and other expenses in connection with the transfer. The Transfer Fee shall be $2,000 if this Agreement is transferred to an existing System franchisee or franchise managing operator.

14.3.6 The transferee must satisfactorily complete Company's training program at the transferee's expense within the time frame Company sets forth.

14.3.7 The proposed transferee must execute Company's then-current form of Franchise Managing Operator Agreement for the remaining unexpired term of this Agreement.

14.3.8 Franchise Managing Operator provides Company with a copy of the executed purchase agreement, which must include the transferee's assumption of an agreement to faithfully perform all of Franchise Managing Operator's obligations under this Agreement.

14.3.9 Franchise Managing Operator executes a general release under seal, in a form satisfactory to Company, of any and all claims against Company, Operating Entity, and their parents, affiliates and officers, directors, shareholders, and employees, in their corporate and individual capacities, provided that this release will not be inconsistent with any applicable state statute regulating franchising.

14.3.10 The transferee must obtain, within the time limits set by Company, and maintain thereafter all permits and licenses required for the operation of the Business.

14.3.11 The transfer must be made in compliance with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

14.3.12 The purchase price and the terms of the proposed transfer are not so burdensome to the prospective transferee as to impair or materially threaten Franchise Managing Operator's performance under its managing Franchise Operator Agreement.

14.3.13 Franchise Managing Operator must request that Company provide the prospective transferee with Company's then-current form of disclosure document and Company will not be liable for any representations not included in the disclosure document.

14.3.14 In any event, Company may withhold or condition its consent to any transfer as Company deems appropriate based on the circumstances of the transfer or otherwise.

15. **Termination.**

15.1. **Automatic Termination.** This Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

15.1.1 If Franchise Managing Operator makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy, is adjudicated bankrupt or insolvent, files or acquiesces in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consents to or acquiesces in the appointment of a trustee or receiver for Franchise Managing Operator;

15.1.2 If proceedings are commenced to have Franchise Managing Operator adjudicated bankrupt or to seek Franchise Managing Operator's reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for Franchise Managing Operator without Franchise Managing Operator's consent, and the appointment is not vacated within 60 days; or

15.1.3 Franchise Managing Operator attempts to make an unauthorized transfer of this Agreement or any of Franchise Managing Operator's rights, interests, obligations and duties as contained in this Agreement in violation of any of the transfer provisions contained in Section 14 of this Agreement or sells, assigns, transfers, conveys, give away, pledges, mortgages, or otherwise encumbers any of the Assets of the Business.

15.1.4 Franchise Managing Operator fails to achieve the Minimum Gross Sales Requirement or the Minimum Management Fee Requirement as contained in Section 1.7 of this Agreement.

15.2 **Termination with Notice and without Opportunity to Cure**. Company has the right to terminate this Agreement immediately and without the opportunity to cure, effective upon delivery of written notice to Franchise Managing Operator, for any of the following breaches or defaults:

15.2.1 Franchise Managing Operator fails to attend and successfully complete the Initial Training and
commence operations of the Business within three (3) months of signing this Agreement;

15.2.2 Franchise Managing Operator has made or makes any material misrepresentation or omission in the franchise managing operator application or in the operation of the Business;

15.2.3 Franchise Managing Operator receives from Company three (3) or more notices to cure the same or similar defaults or violations of this Agreement within any two

(2)-year period of time, regardless of whether these defaults were cured after notice was sent to Franchise Managing Operator;

15.2.4 Franchise Managing Operator is or has been convicted by a trial court of, or plead no contest to, a felony or any conviction rising to the equivalent of a felony and/or failure to disclose a prior felony conviction or conviction rising to the equivalent of a felony to Company;

15.2.5 Franchise Managing Operator engages in any dishonest or unethical conduct, which may adversely affect the reputation of the Business or the general goodwill associated with the System and the Proprietary Marks;

15.2.6 Franchise Managing Operator understates any amount owed to Company by three percent (3%) or more, in any reported financial statement, on three (3) or more occasions, during any consecutive two (2)-year time frame during the Term, regardless of whether or not Franchise Managing Operator subsequently rectifies the deficiency;

15.2.7 Franchise Managing Operator violates any covenant of confidentiality and non-disclosure provision contained in Section 9 of this Agreement;

15.2.8 Franchise Managing Operator ceases to continuously and actively operate the Business for five (5) consecutive days, unless caused by an act of God, or other circumstance beyond Franchise Managing Operator's control, as determined by Company; or Franchise Managing Operator's conduct is otherwise determined by Company to constitute an abandonment of the Business;

15.2.9 Franchise Managing Operator fails to attend Company's Annual Convention every year;

15.2.10 any other Franchise Operator Agreement, franchise agreement or other agreement between Franchise Managing Operator, or any entity in which Franchise Managing Operator is a principal, and Company and its affiliates, is terminated for any reason;

15.2.11 Franchise Managing Operator commits three (3) or more defaults of this Agreement in any 12 month period;

15.2.12 Franchise Managing Operator, or any entity in which Franchise Managing Operator is a principal, breaches any other agreement with Company or any of its affiliates, or threatens any material breach of any such agreement, and fails to cure such breach within any permitted period for cure;

15.2.13 Franchise Managing Operator materially violates any provision hereof pertaining to the Proprietary Marks or Confidential Information or misuses the Proprietary Marks or Confidential Information;

15.2.14 Franchise Managing Operator violates any safety or sanitation law, ordinance or regulation or operates the Business in a manner that presents a health or safety hazard to customers or the general public;

15.2.15 Franchise Managing Operator violates the in-term restrictive covenant contained in Section 11.1 or fails to refer a Required Referral to Company, BELFOR Franchise Group, Inc., or BELFOR USA, Inc.;

15.2.16 Franchise Managing Operator orders, purchases, or uses in the operation of the Business unapproved supplies, signs, furnishings, fixtures, equipment or inventory, or purchases supplies, signs, furnishings, fixtures, equipment or inventory from an unapproved supplier;

15.2.17 Franchise Managing Operator takes for Franchise Managing Operator's own personal use any assets or property of the Operating Entity and Business; or

15.2.18 If Franchise Managing Operator purports to assign, sell, transfer, encumber or permit a lien to be placed, or a levy of writ of attachment or execution or any other lien is placed against any partnership, limited liability company, or corporation Franchise Managing Operator creates to operate the Store, or any of Franchise Managing Operator's principals or any of their assets which are not released or bonded against within 30 days.

15.3 **Termination with 15 Days' Notice and Opportunity to Cure**. Company has the right to terminate this Agreement if any of the following defaults remain uncured afterFranchise Managing Operator's receipt of a default notice from Company and expiration of a 15-day cure period:

15.3.1 Franchise Managing Operator fails to make payment of any amounts due to Company, Operating Entity or any of their affiliates when they are due;

15.3.2 Franchise Managing Operator fails, for a period of 15 days after notification of non-compliance by the appropriate authority, to comply with any federal, state or local law, regulation or ordinance applicable to the operation of the Business;

15.3.3 Franchise Managing Operator fails to comply with modifications to System Standards or Operations Manuals within the required time period;

15.3.4 Franchise Managing Operator fails to receive Company's prior written approval and use products or materials that do not meet Company's standards and/or does not promptly discontinue use after written notice from Company;

15.3.5 Franchise Managing Operator fails to timely provide Company or Operating Entity with any report, statement, or return required by this Agreement;

15.3.6 Franchise Managing Operator fails to service all Customers in a manner consistent with Company's System Standards and reputation and Franchise Managing Operator fails to cure such inconsistency;

15.3.7 Franchise Managing Operator advertises or solicits a customer or service location that is located outside the Territory without Company's prior written consent;

15.3.8 Franchise Managing Operator fails to immediately endorse and deliver to Operating Entity or Company any payments due to Operating Entity or Company from any third party that is erroneously made to Franchise Managing Operator;

15.3.9 Franchise Managing Operator fails to maintain the prescribed months, days or hours of operation;

15.3.10 Franchise Managing Operator fails, in Company's sole discretion, to personally supervise day-to-day operation of the Business or fails to employ a sufficient number of qualified, competent personnel as Company requires from time to time;

15.3.11 Franchise Managing Operator fails to maintain the strict quality controls reasonably required by this Agreement and/or the Operations Manuals, as may be amended from time to time;

15.3.12 Franchise Managing Operator conducts himself in a manner that, although not criminal, reflects adversely on the System, the Proprietary Marks, or the products offered through the System; or

15.3.13 Franchise Managing Operator fails to procure or maintain any licenses, certifications, or permits necessary for the operation of the Business.

15.4 **Upon 30 Days' Notice to Cure**. Company has the right to terminate this Agreement if Franchise Managing Operator fails to perform or comply with any one or more of the terms or conditions of this Agreement or any other agreements between Franchise Managing Operator, or any entity in which Franchise Managing Operator is a principal, and Company or its affiliates, and fails to cure such default upon 30 days prior written notice.

15.5 **Termination upon Death or Disability**. This agreement shall terminate automatically in the event Franchise Managing Operator death. If Franchise Managing Operator becomes disabled to the extent that Franchise Managing Operator is unable to perform the obligations required under this Agreement, we will allow you 90 days to transfer your interest in the business to a qualified buyer that meets our specifications as described in Section 14.3 of the Franchise Operator Agreement. In the event that you are unable to locate a qualified buyer within 90 days from the time you became disabled, the Franchise Operator Agreement will automatically terminate.

For purposes of this Section, "disabled" is defined as a condition that materially impairs your ability to operate the Business in accordance with this Agreement.

15.6 **Effect of Termination**. Upon termination of this Agreement, regardless of the cause, or upon expiration and nonrenewal or transfer of this Agreement, Franchise Managing Operator must, at Franchise Managing Operator's expense, comply with all of the following:

15.6.1 Immediately cease operations under this Agreement, vacate the Office and return all equipment, supplies and inventory to Operating Entity or its designee;

15.6.2 Pay Company or Operating Entity any amounts then due;

15.6.3 Promptly relinquish possession of and transfer to the Operating Entity or its designee all property of the Business.

15.6.4 Return the Operations Manuals and all other materials and Confidential Information loaned to Franchise Managing Operator, and immediately and permanently cease the use of such information and materials;

15.6.5 To the extent in the possession of Franchise Managing Operator, deliver to Company all customer information, lists or records;

15.6.6 Comply with all of the provisions of this Agreement that survive, expressly or impliedly, the Term, including Franchise Managing Operator's covenants to maintain the confidentiality of the Confidential Information, covenant against competition, non-solicitation and indemnity obligations, all of which will survive the transfer, termination or expiration of this Agreement;

15.6.7 Immediately cease to hold yourself out as a System operator or franchisee;

15.6.8 Cease to use in advertising or in any other manner, any methods, procedures or techniques associated with Company or the System; and

15.6.9 Execute from time to time any necessary papers, documents, and assurances to effectuate the intent of this Section 15.6.

## 16. Dispute Resolution Procedures.

16.1 **Internal Dispute Resolution**. Franchise Managing Operator must first bring any claim or dispute Franchise Managing Operator has with Company, Operating Entity and their respective affiliates, members, officers, directors, agents and employees to Company's President. Franchise Managing Operator must exhaust this internal dispute resolution procedure before Franchise Managing Operator may bring Franchise Managing Operator's dispute before a third

party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

16.2 **Mediation**. At Company and/or Operating Entity's option, all claims or disputes between Company, Operating Entity and their respective affiliates, members, officers, directors, agents and employees and Franchise Managing Operator, arising out of, or in any way relating to, this Agreement or any other agreement by and between Franchise Managing Operator, or any entity in which Franchise Managing Operator is a principal, and Company, Operating Entity and their respective affiliates, members, officers, directors, agents and employees, or any of the parties' respective rights and obligations arising from this Agreement, or the operation of the Business, which are not first resolved through the internal dispute resolution procedure set forth in Section 16.1 above, must be submitted first to non-binding mediation in Ann Arbor, Michigan under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Company, Operating Entity and their respective affiliates, members, officers, directors, agents and employees with respect to any such claim or dispute, Franchise Managing Operator must submit a notice to Company and Operating Entity, which specifies, in detail, the precise nature and grounds of such claim or dispute. Company and/or Operating Entity will have a period of 30 days following receipt of such notice within which to notify Franchise Managing Operator as to whether Company, Operating Entity and/or their affiliates elects to exercise the option to submit such claim or dispute to mediation. Franchise Managing Operator may not commence any action against Company, Operating Entity and their respective affiliates, members, officers, directors, agents and employees with respect to any such claim or dispute in any court unless Company fails to exercise the option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Company. Company and/or Operating Entity may specifically enforce its rights to mediation. Each party shall bear its own cost of mediation and but shall share the cost of the mediator equally. This agreement to mediate shall survive any termination or expiration of this Agreement.

16.2.1 Company and/or Operating Entity shall not be required to first attempt to mediate a controversy, dispute, or claim as set forth in this Section if such controversy, dispute, or claim concerns an allegation that Franchise Managing Operator has violated (or threatens to violate, or poses an imminent risk of violating):

a. Any federally protected intellectual property rights in the Proprietary Marks, the System, trade secrets, or Confidential Information;

b. Any claims pertaining to or arising out of any warranty issue;

c. Any of the restrictive covenants contained in this Agreement; or

d. Any claims arising out of or related to fraud or misrepresentation by Franchise Managing Operator.

16.3 **Selection of Venue**. Nothing contained in this Agreement shall prevent Company and/or Operating Entity from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect their interests. The parties expressly agree to the exclusive jurisdiction and venue of any court of general jurisdiction in Washtenaw County, Michigan or the United States District Court for the Eastern District of Michigan. Franchise Managing Operator acknowledges that this Agreement has been entered into in the State of Michigan, and that Franchise Managing Operator is to receive valuable and continuing services emanating from Company's headquarters in Ann Arbor, Michigan, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, Franchise Managing Operator hereby irrevocably consents to the personal jurisdiction of the state and federal courts of the State of Michigan as set forth above and waives any objection Franchise Managing Operator may have to either the jurisdiction or venue in such court. In the event that Franchise Managing Operator files an action in any forum or jurisdiction in violation of this Section, Franchise Managing Operator shall pay Company's and/or Operating Entity's costs and fees, including Company's and/or Operating Entity's reasonable attorneys' fees, in connection with any efforts to transfer the dispute to the proper forum or jurisdiction.

16.4 **Prior Notice of Claims.** As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, Franchise Managing Operator must notify Company and Operating Entity within 30 days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

16.5 **Choice of Law**. This Agreement will be governed by and construed in accordance with the laws of the State of Michigan (without reference to its conflict of laws principles).

16.6 **Third-Party Beneficiaries**. Company's officers, directors, members, agents and/or employees are express third-party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in this Section, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by Franchise Managing Operator.

16.7 **Injunctive Relief**. Nothing in this Agreement shall prevent Company and/or Operating Entity from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause Company and/or Operating Entity loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, Franchise Managing Operator's only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, Franchise Managing Operator expressly waives all claims for damages Franchise Managing Operator incurs as a result of the wrongful issuance.

16.8 **Attorneys' Fees**. If Franchise Managing Operator is in breach or default of any monetary or non-monetary material obligation under this Agreement or any related agreement between Franchise Managing Operator, or any entity which Franchise Managing Operator is a principal, and Company, Operating Entity or any of their affiliates, and Company and/or Operating Entity engages an attorney to enforce Company's and/or Franchise Managing Operator's rights (whether or not formal judicial proceedings are initiated), Franchise Managing Operator must pay all reasonable attorneys' fees, court costs and litigation expenses Company and/or Operating Entity incurs. If Franchise Managing Operator institutes any legal action to interpret or enforce the terms of this Agreement, and Franchise Managing Operator's claims in such an action are denied or the action is dismissed, Company and/or Operating Entity shall be entitled to recover their reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

16.9 **Limitation of Action**. Franchise Managing Operator further agrees that no cause of action arising out of or under this Agreement may be maintained by Franchise Managing Operator against Company or Operating Entity unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one (1) year after Franchise Managing Operator becomes aware of facts or circumstances reasonably indicating that Franchise Managing Operator may have a claim against Company or Operating Entity hereunder, whichever occurs sooner, and that any action not brought within this period will be barred as a claim, counterclaim, defense, or set-off. Franchise Managing Operator hereby waives the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by Company or Operating Entity, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

16.10 **Waiver of Punitive Damages**. Franchise Managing Operator hereby waives, to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against Company or Operating Entity arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agrees that, in the event of a dispute, Franchise Managing Operator's recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions will continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

16.11 **Jury Trial Waiver. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER WILL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE**

**PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR FRANCHISE MANAGING OPERATOR'S PURCHASE FROM COMPANY OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES. THE PARTIES AGREE THAT ALL PROCEEDINGS ARISING OUT OF OR RELATED TO THIS AGREEMENT WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE BASIS, AND THAT ANY PROCEEDING BETWEEN COMPANY, OPERATING ENTITY AND THEIR RESPECTIVE AFFILIATES, MEMBERS, OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES AND FRANCHISE MANAGING OPERATOR MAY NOT BE CONSOLIDATED WITH ANY OTHER PROCEEDING BETWEEN COMPANY AND ANY OTHER THIRD PARTY.**

17. **Representations.**

NO SALESPERSON, REPRESENTATIVE OR OTHER PERSON HAS THE AUTHORITY TO BIND OR OBLIGATE COMPANY EXCEPT ITS AUTHORIZED OFFICER BY A WRITTEN DOCUMENT. FRANCHISE MANAGING OPERATOR ACKNOWLEDGES THAT NO REPRESENTATIONS, PROMISES, INDUCEMENTS, GUARANTEES OR WARRANTIES OF ANY KIND WERE MADE BY COMPANY OR ON ITS BEHALF THAT HAVE LED FRANCHISE MANAGING OPERATOR TO ENTER INTO THIS AGREEMENT. FRANCHISE MANAGING OPERATOR UNDERSTANDS THAT WHETHER FRANCHISE MANAGING OPERATOR SUCCEEDS AS A SYSTEM OPERATOR IS DEPENDENT UPON FRANCHISE MANAGING OPERATOR'S EFFORTS, BUSINESS JUDGMENTS, THE PERFORMANCE OF THE BUSINESS' EMPLOYEES, MARKET CONDITIONS AND VARIABLE FACTORS BEYOND COMPANY'S CONTROL OR INFLUENCE. FRANCHISE MANAGING OPERATOR FURTHER UNDERSTANDS THAT SOME FRANCHISEES AND OPERATORS ARE MORE OR LESS SUCCESSFUL THAN OTHER FRANCHISEES AND OPERATORS AND THAT COMPANY HAS MADE NO REPRESENTATION THAT FRANCHISE MANAGING OPERATOR WILL DO AS WELL AS ANY OTHER FRANCHISEE OR OPERATOR.

THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THIS AGREEMENT, WITH ALL BLANKS COMPLETED AND WITH ANY AMENDMENTS AND EXHIBITS, AT LEAST SEVEN (7) CALENDAR DAYS PRIOR TO EXECUTION OF THIS AGREEMENT. IN ADDITION, THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF COMPANY'S FRANCHISE DISCLOSURE DOCUMENT AT LEAST FOURTEEN (14) CALENDAR DAYS PRIOR TO THE EXECUTION OF THIS AGREEMENT OR FRANCHISE MANAGING OPERATOR'S PAYMENT OF ANY MONIES TO COMPANY, REFUNDABLE OR OTHERWISE.

FRANCHISE MANAGING OPERATOR ACKNOWLEDGES THAT COMPANY HAS RECOMMENDED, AND THAT FRANCHISE MANAGING OPERATOR HAS HAD THE OPPORTUNITY TO OBTAIN, REVIEW OF THIS AGREEMENT AND THE FRANCHISE

DISCLOSURE DOCUMENT BY FRANCHISE MANAGING OPERATOR'S LAWYER, ACCOUNTANT OR OTHER BUSINESS ADVISOR PRIOR TO EXECUTION HEREOF.

EACH OF THE UNDERSIGNED PARTIES WARRANTS THAT IT HAS THE FULL AUTHORITY TO SIGN AND EXECUTE THIS AGREEMENT.

18. **Miscellaneous**.

18.1 **Indemnity**. Franchise Managing Operator shall indemnify Company from and against any and all actions, suits, proceedings, liabilities, damages, losses, costs and expenses (including attorneys' and experts' fees) arising out of or in connection with any breach or threatened breach by Franchise Managing Operator of any one or more provisions of this Agreement. The existence of any claim, demand, action or cause of action of Franchise Managing Operator against Company shall not constitute a defense to the enforcement by Company of any of the covenants or agreements herein.

18.2. **Waiver**. A waiver by either party of any of the terms and conditions of this Agreement in one instance shall not be deemed or construed as a waiver of such term or condition in the future or upon any subsequent breach thereof.

18.3. **Notices**. All notices required to be given hereunder shall be given in writing by facsimile, with a confirmation copy by overnight mail (with an executed receipt evidencing such delivery) by a generally recognized carrier at the recipient's principal address or such other address as may be designated in writing by the parties hereto. Notice shall be deemed given on the date of receipt thereof by the recipient, as evidenced by the delivery receipt.

18.4. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

18.5. **Captions**. The Article and Section headings herein are for convenience only and do not affect the construction of the terms of this Agreement.

18.6. **Force Majeure**. Neither Franchise Managing Operator, Company, Operating Entity nor their affiliates will be liable for loss or damage or deemed to be in breach of this Agreement or any related agreement if the breach is not the fault or within the reasonable control of the person due to perform but results from, without limitation, fire, flood, natural disasters, acts of God, governmental acts or orders, or civil disorders. Any delay resulting from any such cause will extend the time of performance for the period of such delay or for such other reasonable period as the parties agree in writing, or will excuse performance, in whole, or in part, as Company deems reasonable.

18.7. **Entire Agreement**. This Agreement contains the entire understanding of the parties related to the subject matter contained herein. This Agreement supersedes all previous written and oral agreements or understandings between Franchise Managing Operator, Company and Operating Entity. This Agreement cannot be amended or modified other than by an instrument, in writing, signed by Franchise Managing Operator, Company and Operating Entity,

except as otherwise may have been specifically provided for herein. Nothing in this Agreement or in any related agreement is intended to disclaim Company's representations made in the franchise disclosure document.

18.8. **Severability**. Each section, part, term or provision of this Agreement is severable, and if, for any reason, any section, part, term or provision of this Agreement is deemed to be invalid and contrary to, or in conflict with, any existing or future law, decision, ruling or regulation of a court or agency having valid jurisdiction, that will not impair the operation or affect the remaining portions, sections, parts, terms or provisions of this Agreement, and the latter will continue to be given full force and effect and bind Franchise Managing Operator, Company and Operating Entity, and the invalid sections, parts, terms or provisions will not be a part of this Agreement.

*THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK*

**IN WITNESS WHEREOF**, the parties hereto, by their duly authorized officers and intending to be legally bound hereby, have executed this Franchise Operator Agreement on the day and year above written.

**COMPANY**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By:_____

Print Name:_____

Title:_____

**OPERATING ENTITY**

Entity Name:_____

By:_____

Print Name:_____

Title:_____

**FRANCHISE MANAGING OPERATOR**

Signature:_____

Print Name:_____

## EXHIBIT A TO FRANCHISE OPERATOR AGREEMENT

## CONFIDENTIALITY AND RESTRICTIVE COVENANT AGREEMENT
*(immediate family members of Franchise Managing Operator)*

In consideration of my being the **[insert relationship to Franchise Managing Operator]** of **[insert here name of Franchise Managing Operator]** (the "Franchise Managing Operator"), and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree that Franchise Managing Operator has acquired the right from 1 800 WATER DAMAGE INTERNATIONAL, LLC (the "Company") to manage and operate a 1-800 WATER DAMAGE business (the "Business") and the right to use in the operation of the Business the Company's trade names, trademarks and service marks (the "Proprietary Marks") and the Company's unique and distinctive format and system relating to the establishment and operation of businesses (the "System"), as they may be changed, improved and further developed from time to time in the Company's sole discretion, under the terms of a Managing Franchise Operator Agreement (the "Franchise Operator Agreement") dated _____ _____only at the following authorized and approved location: _____ (the "Office").

1. For purposes of this Agreement, any capitalized terms not specifically defined herein will be afforded the same definition that said term has in the Franchise Operator Agreement

2. The Company possesses certain proprietary and confidential information relating to the operation of the System, which includes trade secrets, price marketing mixes related to products and services offered by Businesses, supplier networks and pricing arrangements with suppliers, copyrighted materials, and other methods, techniques and know-how concerning the of operation of the Store (the "Confidential Information").

3. Any and all information, knowledge, know-how, and techniques which the Company specifically designates as confidential will be deemed to be Confidential Information for purposes of this Agreement.

4. In consideration of the grant to Franchise Managing Operator, I may be disclosed Confidential Information during the term of this Agreement.

5. I acknowledge that I will not acquire any interest in the Confidential Information and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition.

6. The Confidential Information is proprietary, involves trade secrets of the Company, and I do hereby agree that I will hold in strict confidence all Confidential Information and all other information designated by the Company as confidential. Unless the Company otherwise agrees in writing, I will not disclose and/or use the Confidential Information in any capacity.

7. Except as otherwise approved in writing by the Company, during the term of the Franchise Operator Agreement, I will not, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation or limited liability company:

(a) Own, maintain, engage in, be employed by, lend money to, extend credit to or have any interest in any other business offering or licensing water damage restoration services, carpet cleaning services, mold remediation, odor removal or related cleaning and remediation services (each, a "Competitive Business"), except for other franchises or authorizations Company enters into with Franchise Managing Operator;

(b) Own, maintain, engage in, be employed by, lend money to, extend credit to or have any interest in any other business offering or licensing construction services, including drywall removal and installation, structural work, interior finishing, and electrical, mechanical and plumbing and heating services (collectively the "Construction Services");

(c) Use Company's Confidential Information, System, Operations Manuals, Proprietary Marks, customer lists, Customer Information, trade secrets, trade dress, proprietary knowledge, or know-how, or any colorable imitations, in the design, development, or operation of any business other than the Business, unless specifically authorized in writing by Company;

(d) Employ or seek to employ any person who is at that time employed by Company, its affiliates or any other System franchisee or operator, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

(e) Divert or attempt to divert any business or customer of the Business or any Required Referral to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System.

8. Except as otherwise approved in writing by the Company, I will not, for a period of 24 months following the expiration or termination of the Franchise Operator Agreement, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation or limited liability company:

(a) Engage as an owner, shareholder, partner, director, officer, employee, consultant, salesperson, representative, or agent or in any other capacity in any Competitive Business;

(b) Employ or seek to employ any person who is at that time employed by Company, its affiliates or any other System franchisee or operator, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat;

(c) Solicit business from customers of the Business or contact any of Business' suppliers or vendors for any competitive business purpose; or

(d) Divert or attempt to divert any business or customer of the Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System within: (i) the Territory; (ii) the geographic area encompassed by the territories of any WATER DAMAGE franchisee, WATER DAMAGE Company Store, or any other WATER DAMAGE business operators, as of the date of the termination or expiration of this Agreement; or (iii) a geographic area that is contained in a circle having a radius of 100 miles outward from the outside boundary of the Territory.

9. I agree that each of the foregoing covenants will be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which the Company is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

10. I understand and acknowledge that the Company will have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without my consent, effective immediately upon receipt by me of written notice thereof; and I agree to comply forthwith with any covenant as so modified.

11. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchise Managing Operator. I am aware that my violation of this Agreement will cause the Company and the Franchise Managing Operator irreparable harm; therefore, I acknowledge and agree that the Franchise Managing Operator and/or the Company may apply for the issuance of an injunction preventing me from violating this Agreement, and I agree to pay the Franchise Managing Operator and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to the Franchise Managing Operator and the Company, any claim I have against the Franchise Managing Operator or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

12. This Agreement will be construed under the laws of the State of Michigan (without reference to its conflict of laws principals). The only way this Agreement can be changed is in writing signed by both the Franchisee and me.

Signature: _____

Print Name: _____

Address: _____

**EXHIBIT B TO FRANCHISE OPERATOR AGREEMENT**

**ROBS ADDENDUM TO 1 800 WATER DAMAGE INTERNATIONAL, LLC FRANCHISE OPERATOR AGREEMENT**

This Addendum to the 1 800 WATER DAMAGE INTERNATIONAL, LLC Managing Franchise Operator Agreement (the "Addendum") is made this ____ day of June, 2016, by and between: (i) 1 800 WATER DAMAGE INTERNATIONAL, LLC, a Delaware limited liability company with an address at 731 Fairfield Court, Ann Arbor, Michigan 48108 ("Company"); (ii) [_____] a [_____] limited liability company with an address at [_____] ("Operating Entity"); (iii) _____ an individual with an address at _____ _____("Principal"); and (iv) [_____] a [_____] C corporation with an address at [_____] ("C Corp").

**BACKGROUND**

A. On or around _____ ___, 2016, Company, Operating Entity and Principal entered into a managing franchise operator agreement (the "Operator Agreement") pursuant to which Principal obtained the right and undertook the obligation to operate a 1-800 WATER DAMAGE business (the "Business") owned by Operating Entity and located at [_____]. The Business shall be operated within the following territory [_____] (the "Territory").

B. Principal wishes to use the funds in [his/her] 401(k) retirement plan to fund the payment of the $79,000 initial fee in a transaction known as a rollover as business startups (the "ROBS"). In order to effectuate the ROBS, Principal has formed C Corp, and C Corp has adopted a 401(k) qualified plan (the "401K Plan"), whereby Principal's existing retirement funds shall be rolled into C Corp's newly adopted 401(k) qualified plan, and the 401(k) Plan shall purchase some or all of C Corp's stock.

C. In order to accommodate the Principal's request to use funds from the 401K Plan to fund the initial fee, the parties hereby agree to modify the Operator Agreement pursuant to the terms and conditions set forth in this Addendum.

NOW THEREFORE, in consideration of the mutual agreements, covenants and promises contained in this Addendum and for mutual consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

**AGREEMENT**

1. **Background; Definitions.**

a. The parties agree and acknowledge that the Background portion of this Addendum, including all definitions and provisions set forth therein, is hereby incorporated by reference as if fully set forth in this Section.

b. For purposes of this Addendum, if a capitalized term in this Addendum is not specifically defined herein, that term will be given the same definition that the term is afforded in the Operator Agreement.

2. **C Corp as Managing Operator.** In order to effectuate the ROBS, Principal hereby assigns, transfers, and conveys to C Corp the Operator Agreement, effective as of the date of this Addendum. C Corp hereby assumes all of Principal's obligations, assignments, commitments, duties and liabilities under the Operator Agreement, and agrees to be bound by and observe and faithfully perform all of the obligations, assignments, commitments and duties of Principal under the Operator Agreement with the same force and effect as if the Operator Agreement were originally written with C Corp as the "Managing Operator" thereunder. Principal shall serve as C Corp's key manager and will devote [his/her] personal full time attention and best efforts to the management and operation of the Business. Principal and C Corp acknowledge and agree that they will not be deemed in any manner an employee of either Company or the Operating Entity.

3. **First Year Operator Fee.** Section 6.1 of the Operator Agreement regarding the First Year Salary is deleted in its entirety and replaced with the following:

> **First Year Operator Fee**. During the Business' first year of operations, the Operating Entity shall pay the Managing Operator an operator fee of $30,000.00, paid in bi-weekly installments (the "Operator Fee"). If the Managing Operator purchases two Territories under multiple, simultaneously executed operating agreements, the first year Operator Fee will be $40,000. If the Managing Operator purchases four Territories under multiple, simultaneously executed operating agreements, the first year Operator Fee will be $60,000.00. Operating Entity shall commence payment of the Operator Fee on the first day of the Initial Training Program.

4. **Discretionary Operator Fees**. Section 6.2 regarding the Draw against Managing Operator Profit is deleted in its entirety and replaced with the following:

> **Draw against Managing Operator Profit**. In addition to the Operator Fee, Operating Entity shall provide Managing Operator with a draw as an advance against the future Operator Profit, as defined in Section 6.3 below (the "Draw"). Operating Entity shall pay the Draw in bi-weekly installments. During the first year of operations, the Operating Entity shall pay the amount of the Draw at its discretion. Beginning in the second year of operations, the Draw shall equal 50% of the Operator Profit of the prior year. The Operating Entity may, as part of the ongoing review of Managing Operator's performance, cease, adjust, increase, decrease or continue the Draw.

5. **Managing Operator Profit**. Section 6.3 of the Operator Agreement regarding the Managing Operator Profit is deleted in its entirety and replaced with the following:

> **Managing Operator Profit**. Provided that the Minimum Gross Sales Requirement and the Minimum Management Fee Requirement described in Section 1.7 are met, Managing Operator will be eligible to receive 50% of the Business' Gross Profit (the "Operator Profit"). "Gross Profit" means the Business' Gross Sales before taxes and after deducting all Operating Expenses, as calculated on a cash basis and at the end of the calendar year. If Operator Profit exceeds the amount of the Draw in any calendar year (a "Surplus"), the Operating Entity shall remit the Surplus, less the Draw, to Managing Operator within 90 days after the close of the each calendar year. In the event the Draw exceeds the Operator Profit by any amount in any calendar year (a "Deficiency"), the Managing Operator shall pay the Operating Entity the Deficiency only to the extent the Deficiency exceeds the sum of the Operator Fee plus an additional amount which equals the

minimum payment to which an hourly or exempt employee, as the case may be, is entitled to under federal and state law in the Managing Operator's municipality. The Deficiency shall be paid within 90 days of Managing Operator receiving notice of payment from Operating Entity. Managing Operator's failure to timely pay will constitute a default under this Agreement. In the instance of a Deficiency, the Operating Entity reserves the right to agree to alternative payment terms, including a deduction of the Deficiency from future Operator Profit in subsequent calendar years.

6. **Right to Receive Benefits**. Section 6.4 of the Operator Agreement regarding the Benefits is deleted in its entirety and replaced with the following:

Operating Entity will pay Managing Operator from Operating Entity's receipts a sum up to the amount it pays its full time employees under its then-current fringe benefits plans, provided the Managing Operator sources its own medical insurance and/or other benefit plans. Company may modify, amend, or terminate such benefit plans at any time without prior notice, at which point the payments to Managing Operator shall be modified, amended or will otherwise cease.

7. **Principal's Guarantee.** Principal agrees that, in consideration of the grant by Company to C Corp of the right to operate the Business, and in further consideration for entering into this Agreement, Principal agrees to be firmly bound by all of the terms, provisions and conditions of the Operator Agreement, and any other agreement between Company, Operating Entity and their affiliates and C Corp, and does hereby unconditionally guarantee the full and timely performance by C Corp of each and every obligation of C Corp under the Operator Agreement or other agreement between C Corp, Company and/or Operating Entity, including, without limitation, the confidentiality provisions of Section 9 and the non-competition and non-solicitation obligations in Section 11. In addition, Principal will ensure that Principal's spouse and immediate families will sign and comply with the Confidentiality and Non-Compete Agreement attached as Exhibit A to the Operating Agreement, or as Company, in Company's sole discretion, otherwise prescribes. Principal must provide Company with a copy of each executed agreement.

8. **Insurance.** Before commencing the 1-800 WATER DAMAGE Business, C Corp and Principal must obtain and maintain in full force and effect throughout the term of the Operator Agreement and at C Corp's expense, the following insurance protecting C Corp, Principal, Company, Operating Entity and their officers, directors, and employees, against loss, liability, fire, personal injury, death, property damages, or theft arising from, or occurring in connection with, the operation and promotion of the Business. C Corp and Principal acknowledge and agree that (a) the insurance you will maintain reflects the minimum amounts of coverage Company requires, (b) these minimums are not meant to reflect the actual needs C Corp and Principal may have, and (c) it is C Corp and Principals responsibility to carefully evaluate if these minimums will adequately meet its needs. All policies will be written by an insurance company(ies) that is/are licensed in the state in which you are doing business, and that has an A.M. Best rating of "A" or better. Currently, C Corp and Company are not obligated to purchase insurance from any specific provider, although Company reserves the right to specify the specific provider that C Corp and Principal must use in the future.

Insurance policies will be written by an insurance company which is satisfactory to Company and will be in accordance with the standards and specifications set forth in the Operations Manual or otherwise in writing, and will include, at a minimum (except as additional coverage and higher policy limits may reasonably be specified for all 1-800 WATER DAMAGE franchisees from time to time by Company in the Operations Manual or otherwise in writing) the following:

a. Commercial General Liability Insurance. Insurance for "bodily injury," "property damage," and "personal and advertising injury" with no exclusion or limitation

applying to the products/completed operations liability coverage. Limits shall be at least $2,000,000 general aggregate, $2,000,000 products and completed operations aggregate, $1,000,000 personal and advertising injury limit, and $1,000,000 per occurrence limit. Contractual liability coverage including the assumed personal injury endorsement shall be included to cover the indemnity provisions of this Agreement. The exclusion for employer's liability shall not apply to claims for covered contractually assumed liability claims. Company, Operating Entity and 1-800 WATER DAMAGE North America, LLC shall be named as an additional insured on such policy on a primary and noncontributory basis with a Grantor of Franchise Form CG2029 or an insurer's comparable form.

b. Workers' Compensation and Employers' Liability. Statutorily required workers' compensation insurance and employer's liability insurance shall be maintained with limits of at least $500,000 by accident, $500,000 by disease and $500,000 policy limit; or the minimum limit required by state law, whichever is higher. Such policy shall contain a waiver of subrogation endorsement as to claims against Company, Operating Entity and 1 800 WATER DAMAGE North American, LLC. In "Monopolistic States", such as Ohio, North Dakota, Washington, Wyoming and West Virginia, "Stop Gap" coverage must be purchased separately or added to the CGL policy. "Stop Gap" in Ohio must not contain exclusion with the "substantially certain to occur" language.

c. Umbrella Liability Insurance. C Corp and Principal shall maintain a commercial umbrella liability insurance policy with a limit of at least $2,000,000 per occurrence and aggregate and shall list the commercial general liability, automobile liability and workers' compensation/employers' liability policies as scheduled underlying policies.

The insurance levels listed above are the minimum Company requires C Corp and Principal to maintain for the Business. Company may, periodically determine and modify the minimum insurance limits and require different or additional kinds of insurance to reflect changes in insurance standards, normal business practices, higher court awards and other relevant circumstance.

All general liability insurance policies will name Company and Operating Entity and their designated affiliates, employees, officers and directors as additional insureds, and will contain no provision which in any way limits or reduces coverage for C Corp and Principal if a claim is made by Company or Operating Entity.

C Corp and Principal may not reduce the policy limits, restrict coverage, cancel, or otherwise alter or amend any insurance policy without Company's written consent.

C Corp and Principal must provide Company with copies of any insurance claims or insurance cancellations within 24 hours. C Corp and Principal shall have a 24 hour opportunity to cure any lapses in insurance coverage. No insurance policy must be subject to cancellation, termination, non-renewal or material modification, except upon at least 30 days prior written notice from the insurance carrier to Company. Company has the right to increase or otherwise modify the minimum insurance requirements upon 30 days prior written notice to C Corp and Principal, and C Corp and Principal shall comply with any such modification within the time specified in said notice.

9. **Independent Contractor Status.** Principal and C Corp are independent contractors responsible for full control over their internal management, and neither Company nor C Corp are the agent, principal, partner, employee, employer or joint venturer of the other. Principal and C Corp must not act or represent themselves, directly or by implication, as Company or Operating Entity's agent, partner, employee or joint venturer, nor may they incur any obligation on behalf or in the name of Company or Operating Entity. Neither the Operator Agreement, this Addendum nor the parties course of

conduct is intended, nor may anything in this Operator Agreement, this Addendum or course of conduct be construed to state or imply that Company or Operating Entity are the employer of C Corp's employees and/or independent contractor, nor vice versa.

10. **Compliance with Internal Revenue Code**. Managing Operator and C Corp represent and warrant to Company and Operating Entity that the implementation of the ROBS complies with all provisions of the Internal Revenue Code, and shall maintain compliance throughout the term of the Operator Agreement. C Corp and Principal shall submit to Company upon request such forms, records, reports, or information demonstrating such continued compliance. C Corp and Principal assume all risk and liability concerning the implantation of the ROBS.

11. **Construction of Language**. The language of this Addendum will be construed according to its fair meaning, and not strictly for or against either party. The parties have had a reasonable opportunity to review this Addendum. In the event of an ambiguity or if a question of intent or interpretation arises, this Addendum shall be construed as if drafted jointly by all of the parties, and no presumptions or burdens of proof shall arise in favor of any party by virtue of the authorship of any of the provisions of this Addendum. Headings are for reference purposes and do not control interpretation.

12. **Entire Agreement**. The Operator Agreement and this Addendum constitute the entire, full, and complete agreement between the parties concerning the Business and supersede any and all prior agreements. In the event of a conflict between the terms of the Operator Agreement and this Addendum, the terms of this Addendum shall control. Except as amended by this Addendum, all the other terms and conditions of the Operator Agreement are hereby ratified and confirmed, including the provisions related to governing law, attorneys' fees and costs, venue and dispute resolution, all of which will also apply to this Addendum.

***Signatures appear on the following page.***

**IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have duly executed and delivered this Addendum on the date first written above.**

**COMPANY**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By:_____

Print Name:_____

Title:_____

**OPERATING ENTITY**

Entity Name:_____

By:_____

Print Name:_____

Title:_____

**C CORP**

Entity Name:_____

By:_____

Print Name:_____

Title:_____

**PRINCIPAL**

Signature:_____

Print Name:_____

# EXHIBIT A-2
# TO THE FRANCHISE DISCLOSURE DOCUMENT

## FRANCHISE AGREEMENT

## (TRADITIONAL FRANCHISE MODEL)

# 1-800 WATER DAMAGE FRANCHISE AGREEMENT

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# 1-800 WATER DAMAGE Franchise Agreement

THIS FRANCHISE AGREEMENT (the "Agreement") is made and entered into this _____ day of _____, 2016, by and between 1-800 WATER DAMAGE International, LLC, a Delaware Limited Liability Company, with its principal place of business at 731 Fairfield Court, Ann Arbor, Michigan 48108 (referred to in this Agreement as "we," "us," "our," "ourselves", and the "Company"), and _____ _____ (together referred to as the "Owners"), residents of the State of _____, and _____, a _____ company to be formed or already existing whose principal address is _____ (referred to in this Agreement as "you," "your" or "Franchisee").

## 1. INTRODUCTION, ACKNOWLEDGMENTS, AND AWARD OF FRANCHISE.

### A. INTRODUCTION.

We use, promote and license certain trade and service marks and other commercial symbols in operating water damage restoration services, carpet cleaning services, mold remediation, odor removal, fire, smoke and related cleaning businesses in the United States, including the trade and service mark(s) "1-800 WATER DAMAGE" (collectively, the "Marks"). These Marks have gained and continue to gain public acceptance and goodwill, and we may continue to create, use, and franchise additional trademarks, service marks, and commercial symbols in operating 1-800 WATER DAMAGE Businesses, as defined below.

Through the expenditure of considerable time, we have established a system of marketing, promoting, advertising, managing, conducting and operating businesses that perform water damage restoration services, carpet cleaning services, mold remediation, odor removal, fire, smoke and related restoration and cleaning services, which services list may be amended to include other services and products from time-to-time in the operations manual or otherwise (the "Remediation Services") and minor drywall removal and installation, hardwood floor repair, tile floor repair, painting, and carpet repair and installation (the "Minor Reconstruction Services"), and ancillary products and services under the Marks using methods and operating systems as defined in our proprietary Operations Manuals (the Remediation Services and the Minor Reconstruction Services shall be collectively referred to herein as the "Services") for both residential and commercial buildings (the "1-800 WATER DAMAGE Business", "Business", or "Franchised Business"). The Business may not provide structural repair work, interior finishing, and electrical, mechanical and plumbing and heating services either through the Business or any other entity ("Reconstruction Services"). In the event that a customer of the Business requires Reconstruction Services, you must refer the customer to us, BELFOR or BELFOR USA (each a "Required Referral").

We award to persons, who meet our qualifications and who are willing to undertake the investment and effort, a franchise to own and operate a 1-800 WATER DAMAGE Business offering the services and products we authorize and approve while utilizing our business formats, methods, procedures, signs, standards, specifications, and Marks (the "System").

Following your evaluation of the 1-800 WATER DAMAGE System, you have expressed to us your desire to obtain the right to develop, own, and be franchised to operate a 1-800 WATER DAMAGE Business.

This Agreement governs the ongoing relationship between you and us.

## B. AWARD OF FRANCHISE.

You have applied for a franchise to own and operate a 1-800 WATER DAMAGE Business. Subject to all of the terms and conditions of this Agreement, we hereby award you a franchise (the "Franchise") to operate a 1-800 WATER DAMAGE Business utilizing the System and the Marks in the geographical territory that you and we have agreed to as described in Exhibit A and in Section 1.C below (the "Territory"). During the term of this Agreement, you may perform the Services offered by the Business for customers or Service Locations within the Territory. A "Service Location" is the physical location or address where the Services are performed. You may also perform services for customers or Service Locations outside of the Territory if the customer located within your Territory initiates the request or in the event we refer the lead to the Business.

The term of the franchise will be ten (10) years (the "Initial Term") commencing on the date of this Agreement.

You must at all times faithfully, honestly, and diligently perform your obligations under this Agreement. Except as stated herein, you must designate at least one (1) managing owner (the "Managing Owner") who will be our primary individual contact with the 1-800 WATER DAMAGE Business and who we will approve in our sole discretion. A Managing Owner may, in our sole discretion, serve as the Managing Owner of more than one (1) 1-800 WATER DAMAGE Businesses that are owned by you; provided, however, that we may, in our sole discretion, require you to designate a person who will serve as the primary individual contact for this 1-800 WATER DAMAGE Business (the "Designated General Manager"). We must approve of the Designated General Manager in writing, which we may grant in our sole discretion. The Managing Owner and, if applicable, the Designated General Manager, must successfully complete the training program as described in and required by this Agreement. The Designated General Manager is not required to have an ownership interest in the 1-800 WATER DAMAGE Business. The Designated General Manager must sign our prescribed form of confidentiality and non-compete agreement. The Managing Owner or, if applicable, the Designated General Manager must continuously exert her/his full-time best efforts to manage, promote and enhance the 1-800 WATER DAMAGE Business, and such other 1-800 WATER DAMAGE Businesses as we permit in our sole discretion. Without our prior written permission, the Managing Owner and, if applicable, the Designated General Manager, must not engage in any other business or activity that conflicts with their obligations to operate the 1-800 WATER DAMAGE Business on a full-time, year round basis.

Before commencing operation of the 1-800 WATER DAMAGE Business, you must employ at least one (1) person who has completed the Initial Training as described and defined in Section 3.A of this Agreement.

Before attending the Initial Training and/or upon any change to the legal entity ownership, you must submit to us a corporate resolution, or similar action, which states the name of the corporation or LLC, the legal names of all of the partners or shareholders, the percentage of ownership that each member controls, their place of residence and their agreement to be bound by the terms of this Agreement. We charge a fee of $500 (the "Transfer of Corporation Fee") to process all changes to the legal entity subsequent to the submission of an initial

corporate resolution prior to the commencement of the 1-800 WATER DAMAGE Business. In the case of multiple Owners, you must submit a dispute resolution procedure acceptable to us in our sole discretion that states what you will do in the event that there is a conflict between any owners of the franchise entity. In addition, at all times, the Owners who have executed this Agreement must control 67% of the franchise entity. The remaining Owners must sign a written confidentiality and non-compete agreement in the form we prescribe.

## C. PROTECTED TERRITORY; RESTRICTIONS.

i. Except as otherwise provided for in the Agreement, so long as you are in compliance with the terms and conditions of this Agreement, we will not establish nor license anyone else to establish another business operating under the System and the Proprietary Marks at any location within the Territory as defined in the Exhibit A of this Agreement, the terms of which are hereby incorporated into this Agreement. You agree to locate the franchise office within the Territory. The Business will not receive an exclusive territory. You acknowledge and agree that other existing System franchisees and businesses owned by us, our affiliates and parent may service customers or Service Locations within the Territory. You may perform services for customers or service locations within the Territory. You may also perform services for customers or service locations outside of the Territory if the customer within your Territory initiates the request or if we refer the customer to you. You acknowledge and agree that other existing System franchisees, Managing Operators and company owned business may service customers or service locations within your Territory. At your option, the Business may subcontract the provision of Services to another System franchisee or Company owned business, in which event the Business will pay the franchisee or Company owned business, the then-current rates established by us, as the same may be revised. Additionally, if you are unable to service a customer or Service Location within or outside of the Territory, you must refer the lead to us and we shall have the right to select another System franchisee, Company owned business, or its affiliates, to perform the work and neither you nor the Business shall be entitled to any proceeds from the provision of Services.

ii. You shall only market the Services and solicit customers or Service Locations within the Territory. Except as described below, you may not market, advertise or solicit in any way, any customer or Service Location outside of the Territory without our prior written consent. In the event that you advertise or solicit customers or Service Locations outside of the Territory without our prior written consent, you will pay us a fee equal to the greater of $500 or the cost of the job for each incident of unauthorized advertising or solicitation (the "Improper Marketing Fee"). The Improper Marketing Fee is in addition to, and not in lieu of, any other rights we have under this Agreement.

iii. Notwithstanding the provisions described above, you may market to and/or solicit insurance providers, third-party administrators, and property managers located outside of the Territory, provided that the insurance providers' customers or the Service Location is within the Territory.

iv. Upon your successful completion of training, we may, at our discretion, require a transitional period of approximately 90 days ("Transitional Period"), in which you and or your Service Technician will have the opportunity to observe a customer service call for customer locations within your Territory which exceed your current level of experience and expertise.

Depending on the scope of work, we reserve the right to refer any jobs within your Territory to a neighboring franchisee or Company owned businesses or affiliate owned location during the Transitional Period and require you to attend such service calls. In certain situations, you may not receive any compensation or proceeds from attending such service calls during the Transitional Period. We reserve the right to extend the 90 day Transitional Period at our sole discretion.

**D. RIGHTS WE RESERVE.**

We and our affiliates retain, as we deem appropriate, the rights to:

i. establish, and license others to establish, businesses operating under the System and the Proprietary Marks at any location outside of the Territory;

ii. establish, and license others to establish, businesses operating under the System and the Proprietary Marks in the Territory, or allow other System franchisees, Managing Operators or Company owned businesses to market and solicit customers and Service Locations within the Territory in the event the Business fails to achieve the required Gross Sales Requirement and/or Minimum Royalty Requirements as described in Section 2.F. of this Agreement;

iii. solicit, market to and build National Account relationships as described in Section 1.G. of this Agreement, whose offices or Service Locations may be located within or outside the Territory;

iv. acquire businesses providing services similar to those provided under the System within and outside the Territory and to be acquired by such a business;

v. sell products or services under the Proprietary Marks within and outside the Territory through any method of distribution, although within the Territory, it may not be through a System business located within the Territory. This includes sales of products using the Proprietary Marks through Alternative Distribution Channels; and

vi. engage in any other activities not expressly prohibited in this Agreement.

**E. REQUIRED PURCHASES.**

We have the right to require you to purchase products, inventory, equipment, fixtures, furnishings, product display units, signs, uniforms, supplies, vehicles, and other materials from us or our designated or approved suppliers. We will furnish you with a list of the equipment, motor vehicle requirements, and other required products, inventory and accessories required in connection with the operation of the Business (collectively, the "Required Purchases"). You must purchase or lease such Required Purchases from us at our then current prices, or, at our direction, from sources or suppliers approved or designated by us (which sources or suppliers may include us).

**F. MAJOR EVENTS.**

In the event of national, regional or local catastrophic event, significant weather event, or any single large loss project (each a "Major Event") within or outside of the Territory, we, our parent or affiliates shall have the sole right to direct and control the provision of Services. You acknowledge and agree that upon a Major Event, we or our parent or affiliates, other System franchisees and Managing Operators will be authorized to perform Services within the Territory and you will not be entitled to any proceeds from the provision of Services performed by third parties within the Territory. Additionally, upon a Major Event, we may require you to mobilize or dispatch the Business' technicians and equipment and supplies to any site or sites, regardless of the distance from the Territory.

**G. NATIONAL ACCOUNTS.**

We have the exclusive right to negotiate and enter into agreements or approve forms of agreement to provide services to "National Account" customers. The term "National Account" means any customer which on its own behalf or through agents, licensees, or other third parties owns, manages, controls or otherwise has responsibility for a business in more than one (1) location, including but not limited to national insurance companies, regardless of the aggregate contract amount of the Services to be performed. Any dispute as to whether a particular customer is a National Account shall be determined by us in our sole discretion and our determination shall be final and binding. Following the execution of a contract with or the acceptance of a bid by a National Account customer which contemplates the provision of Services to one (1) or more National Account customers who are located in the Territory, we may, if you are qualified to perform the Services and conditioned upon your substantial compliance with the terms of this Agreement and any other applicable agreements, provide you the opportunity to perform such Services pursuant to the terms and conditions of the National Account contract or on such terms and conditions as we, in our discretion, determine are appropriate. You agree to provide services to all National Account customer referrals within your Territory. You further agree to provide all services in strict adherence to the WATER DAMAGE performance and process standards and all service guidelines and performance standards of the National Account. You may be required to enter into a service agreement to participate in certain National Account programs.

If you are not able to provide services to a National Account customer in conformity with the terms and conditions of the National Account contract, or fails to make an election within the time we specify after being offered the opportunity, we have the right, exercisable in our sole discretion, to (i) provide, directly or through any affiliate or other franchisee or Managing Operator, services to the National Account customer; and/or (ii) contract with another party to provide such services to the National Account customer. In either event, you will not be entitled to any proceeds from the provision of Services provided to the National Account customer.

**H. <u>TOLL-FREE 1-800-WATER DAMAGE NUMBER.</u>** We have established a toll-free number, 1-800- WATER DAMAGE, to which customers may place calls for services offered by our franchisees. Provided that you are in compliance with this Agreement, you will receive telephone calls placed to the 1-800- WATER DAMAGE number by customers that originate from a zip code within your Territory. These services are provided by a third party and we cannot guarantee that you will receive all calls from zip codes within your Territory, but we will make every effort to make sure you do get these calls. You may not advertise or market any telephone number for the Business or the Location other than the 1-800-WATER

DAMAGE telephone number, without our prior written permission.

1. As long as you meet your Minimum Gross Sales and are otherwise in compliance with the terms of this Agreement, we will not authorize anyone else to receive calls that originate from zip codes in your Territory.

2. You are permitted to perform services for all calls placed by customers calling from a zip code within your Territory, regardless of whether such services are to be performed at locations outside of your Territory. Likewise, you acknowledge and agree that other system franchisees may provide services at locations within your Territory if such work is generated as a result of toll-free calls placed by customers calling from a zip code in the other franchisee' Territory. We reserve the right at any time to reroute calls outside any 1-800- WATER DAMAGE franchisees' Territory at our sole discretion.

If you fail to pay Royalties or other payments required under this Agreement when due, or if you fail to otherwise comply with the terms of this Agreement, we have the unilateral right, without any prior notice to you, to terminate or suspend your right to receive calls from the 1-800 WATER DAMAGE toll-free number. If your right to receive calls from the toll-free number is suspended or terminated, we have the right to re-direct all calls placed by customers in your Territory to our offices, or to other system franchisees and we, or the authorized system franchisee, will be permitted to perform all services ordered from such calls, whether or not the services will be performed in your Territory. You must cease all use of the 1-800-WATER DAMAGE toll-free number upon the expiration or termination of this Agreement.

If you are unable to service a customer or Service Location within or outside of the Territory, you must refer the lead to us and we shall have the right to select another System franchisee, Company owned business, or its affiliates, to perform the work and neither you nor the Business shall be entitled to any proceeds from the provision of Services.

## I. ALTERNATIVE DISTRIBUTION CHANNELS

We, our parent and affiliates retain the right to sell products and services under the Proprietary Marks within and outside the Territory through any method of distribution, including, but not limited to, the Internet, catalog sales, telemarketing, or other direct marketing sales (collectively, the "Alternative Distribution Channels"). You may not use Alternative Distribution Channels to make sales outside or inside the Territory and you and/or the Business may not receive compensation for sales by us through Alternative Distribution Channels except as described in the following paragraph.

If we engage in electronic commerce through any Internet, World Wide Web, or other computer network site, or sell through any other Alternative Distribution Channel, and we receive orders for any System products or Services calling for delivery or performance in the Territory, we will offer the order to you at the price we establish. If you choose not to fulfill the order, if you do not meet the requirements, or otherwise are unable to fulfill the order, then we, or another 1-800 WATER DAMAGE Affiliate may fulfill the order, and you will be entitled to no compensation in connection with this.

## H. OTHER BUSINESSES.

It is agreed and understood no other business or business operations may be undertaken through your legal entity or by the Owner without our prior written consent. Owners, including the Managing Owner, may not own or operate any business which conducts services identical or similar to us or our affiliates.

## 2. FEES AND OTHER MONETARY REQUIREMENTS.

### A. INITIAL FRANCHISE FEE.

You promise to pay us a total initial fee (the "Initial Franchise Fee") in the amount of $79,000 (Base Fee) for a population of up to 350,000 within the Territory, as described in this Section of this Agreement. If you wish to Purchase additional territory, the Initial Franchise Fee will equal the Base Fee, plus $225 per thousand in population in excess of 350,000 (the "Additional Fee"). For example, the Initial Territory Fee for a single territory with 385,000 in population will be computed as follows:

$$\$79,000 \text{ Base Fee} + (35 \times 225) = \$86,875$$

As the territories are generally defined by zip codes, we reserve the right not to charge the Additional Fee if we are unable to meet the 350,000 population count without exceeding due to highly populated areas. Each territory will have a maximum of 500,000 people. The purchase of more than 500,000 in population in the aggregate at any time during the term of the Agreement will require the payment of an additional Initial Fee

The Initial Franchise Fee shall be subject to a $5,000 discount for veterans of the U.S. Armed Forces who have been honorably discharged and provide us with documentation of the same.

The determination of population is only for the purposes of determining the Initial Franchise Fee and is not a representation as to the potential number of customers in the Territory, either at the commencement of or during the course of the Term of this Agreement.

Your Initial Franchise Fee shall be due and payable in full upon your execution of this Agreement. The Initial Franchise Fee is non-refundable and deemed fully earned upon payment.

Within three (3) months of the execution of this Agreement, we expect you to complete our Business Initial Training to our satisfaction, as defined below in Section 3.A of this Agreement. In the event that you do not do so, in our discretion, we may terminate this Agreement pursuant to Section 12 of this Agreement.

You must commence operation of the 1-800 WATER DAMAGE Business within four (4) months of signing this Agreement and/or two (2) months following your successful completion of the Initial Training Program, whichever is later. In the event that you do not do so, in our discretion, we may terminate this Agreement pursuant to Section 12 of this Agreement.

If this is a renewal term ("Renewal Term"), the Initial Franchise Fee is waived. However, you will need to pay the renewal fee for this Term of this Agreement in the amount which was agreed upon in your most recent Franchise Agreement or extension term. The renewal fee is non-refundable and deemed fully earned upon payment.

If this is a transfer term ("Transfer Term"), the Initial Franchise Fee is waived. However, you or the selling owner, will need to pay the then-current Transfer Fee. The Transfer Fee is

refundable up until the transferee completes the Initial Training, as described in Section 3.A of this Agreement, and is and deemed fully earned upon payment.

## B. INITIAL PACKAGE FEE.

You promise to pay us, or a vendor designated by us in our sole discretion, for specified equipment, products, supplies and services (the "Initial Package") in the amount of $80,000 (the "Initial Package Fee"), which monies shall be promptly due and payable before receipt of the Initial Package. You will be required to pay for shipping and sales tax separately. The Initial Package consists of certain equipment and small tools package for Remediation Services, safety equipment, a convention fee credit, and supplies as described and listed in Exhibit B to this Agreement. The Initial Package materials will be shipped to you F.O.B. from certain locations which may include West Bloomfield, MI, Exton, PA and Tecumseh, MI. The Initial Package Fee is non-refundable and deemed fully earned upon payment.

If you attend the first convention that is scheduled to take place within one (1) year of your successful completion of the Initial Training, you will receive a $500 convention allowance (the "Convention Allowance") for the 1-800 WATER DAMAGE annual convention (the "Annual Convention"). The Convention Allowance is to be used primarily towards the registration fee, but any remaining balance may be applied towards travel, lodging and/or meals. The Convention Allowance will be rebated to you after you attend the first 1-800 WATER DAMAGE Annual Convention that is scheduled after your completion of the Initial Training (as defined in Section 3.A). If you do not attend the convention, we will not provide you with the Convention Allowance.

If this is a Transfer Term and you are purchasing the entire 1-800 WATER DAMAGE Business from the previous owner, you are not required to purchase the Initial Package; however, you must purchase the equipment not included in the transfer necessary to provide all current services, and you must pay the $500 Convention Allowance, which may be refundable as described above. If this is a Transfer and you are purchasing a portion of the 1-800 WATER DAMAGE Business being sold, you must purchase the entire Initial Package. If this is a Renewal Term or if you are purchasing an additional franchise agreement, you are not required to purchase the Initial Package.

## C. ROYALTY.

You shall pay us a monthly royalty (the "Royalty" or "Royalty Fee") equal to ten percent (10%) of Gross Sales, as defined below in Section 2.D, for all Remediation Services and 5% of the Business' Gross Sales for Minor Reconstruction Services . Commissions paid to lead sources (general contractors, content cleaning companies, third party administrators, etc.) are subject to Royalty. The Royalty will be assessed to you upon the earlier of the receipt of funds from the Customer or 90 days after the date of the original invoice issued to the Customer, regardless of whether the invoice is paid in full. You must enter all work performed in the WATER DAMAGE Software within 24 hours of the start of the job and you must invoice the customer for all work performed within 24 hours of the completion of the job. You must record in the WATER DAMAGE Software all payments received within 48 hours of receipt. If you transfer this Agreement to a new owner, the Royalty for all completed jobs must be paid on (a) the day of closing, or (b) on the effective termination date of this Agreement. Every month, we

will scan WATER DAMAGE Software and find all jobs which have had changes in the amounts paid by Customers since the previous month, and compute Royalty on the amount of the change. When amounts are paid on jobs, Royalty will be charged on those amounts. You will receive an email itemizing the jobs on which the Royalties will be assessed, and the total of the Royalties. The following Friday, we will initiate a transfer of funds between our bank accounts for the amount indicated in the email from the bank account designated by you in the electronic funds transfer ("EFT") agreement attached to this Agreement as Exhibit K. We may specify different due dates periodically in our discretion.

You promise to sign and deliver to us, before the 1-800 WATER DAMAGE Business opens, the documents we require to authorize us to automatically debit your business checking account each Friday for the Royalty due on Gross Sales from the preceding month, including the EFT Agreement. You also promise to promptly and regularly report a correct statement of all of your Gross Sales in the WATER DAMAGE Software, along with any other information we specify, in the form and on the schedule we require.

If you fail to report your Gross Sales for any month as required, or to record receipt of payments received within 48 hours of being received, we can debit your account on the 10th of the Month for the same Royalty amount that we debited during the previous month. If the Royalty we debit from your account is greater than the Royalty you actually owe us (once we have determined your true and correct Gross Sales for the month), we will credit the excess against the amount we otherwise would debit from your account on the following month. If the Royalty we debit from your account is less than the Royalty you actually owe us, we will debit your account for the balance of the Royalty due on the following 10th of the month. Our debit of your account will not relieve you of your obligation to pay any late fees or interest due under Section 2.E of this Agreement. We can require you to pay the Royalty by means other than automatic debit (e.g., by check) whenever we deem appropriate, and you must comply with our payment instructions. We reserve the right to revise the date to collect or credit royalty at our discretion.

We reserve the right to record receipt on your behalf for all accounts receivable in the event this Agreement is terminated and you have not already done so by the effective date of termination.

## D. DEFINITION OF GROSS SALES.

You must report your Gross Sales each month. "Gross Sales," as used in this Agreement, includes all revenue generated from operating the 1-800 WATER DAMAGE Business, whether in cash, in services in kind, from barter and/or exchange, or otherwise. All barter and/or exchange transactions for which you furnish Services and/or products in exchange for goods or services will, for the purpose of determining Gross Sales, be valued at the full retail value of the goods and/or services you provide. You may deduct from Gross Sales the amount of all sales tax receipts or similar tax receipts that, by law, are chargeable to customers, if these taxes are separately stated when the Customer is charged. In accordance with our policies as published periodically, you may also deduct from Gross Sales the amount of any documented refunds that we consider appropriate. There is no Royalty payment due on the sale of Services, except as described in Section 2.C. You must pay Royalties only on the receipt of the cash, services in kind, barter and/or other exchange, except as described in Section 2.C. All payments received for jobs must be recorded in the WATER DAMAGE Software within 48 hours of being received.

## E. LATE REPORT FEE, LATE PAYMENT SERVICE FEE AND INTEREST.

If the Royalty or any other fee that is due is not available in your account for debiting when due, a late payment fee will be imposed of 5% of the amount due or $50, whichever sum is greater, for each week past due ("Late Payment Fee"). If you do not report your Gross Sales as required and/or you fail to submit your Royalty reports when due, a fee will be imposed of $20 per week for each week past due ("Late Report Fee"). Additionally, interest will be imposed at the rate of 18% per annum or the maximum rate permitted by applicable law, whichever is greater, from the date these amounts were originally due until the date paid ("Interest Fee"). If we debit your account for monies owed and there are insufficient funds available, we will also charge our current non-sufficient fund fee ("NSF Fee"). We can automatically debit your account for the Late Payment Fee, NSF Fee, Late Report Fee, Interest Fees and all other fees owed to us.

You acknowledge that this paragraph does not constitute our agreement to accept any payments after they are due or our commitment to extend credit to, or otherwise finance the operation of the 1-800 WATER DAMAGE Business. Notwithstanding the provisions of this Section, your failure to pay all amounts when due constitutes grounds for termination of this Agreement, as provided in Section 12.B. of this Agreement.

## F. MINIMUM GROSS SALES REQUIREMENT AND MINIMUM MANAGEMENT FEE REQUIREMENT

Beginning in the Business' second year of operations, the Business will be required to meet the following minimum Gross Sales requirements for Remediation Services and Minor Reconstruction Services (the "Minimum Gross Sales Requirement") during the Term of this Agreement:

| Year in Operation | Minimum Gross Sales Requirement |
|---|---|
| Year Two | $225,000 annually; $18,750 per month |
| Year Three | $475,000 annually; $39,583 per month |
| Year Four | $725,000 annually; $60,417 per month |
| Year Five and beyond | $975,000 annually; $81,250 per month |

Additionally, beginning in the Business' second year of operations, the Business must pay us the following minimum Royalty Fees (as described in Section 2.C. of this Agreement) and Technology Fees (as described in Section 2.H. of this Agreement) (collectively, the "Minimum Management Fee Requirement"):

| Year in Operation | Minimum Management Fee Requirement |
|---|---|
| Year Two | $24,750 annually; $2,063 per month |
| Year Three | $52,250 annually; $4,354 per month |
| Year Four | $79,750 annually; $6,646 per month |
| Year Five and beyond | $107,250 annually; $8,938 per month |

If the Business fails to achieve the required Gross Sales Requirement and/or the Minimum Management Fee Requirement during any consecutive three-month period, we may terminate this Agreement, elect to establish another franchisee, Managing Operator or Company owned business in the Territory or allow other franchisees, Managing Operators and/or Company owned businesses to advertise, solicit and service customers and Service Locations within the Territory.

If you are awarded more than one (1) 1-800 WATER DAMAGE Business, the dollar values for the Minimum Gross Sales would increase for each additional 1-800 WATER DAMAGE Business you are awarded. For a second 1-800 WATER DAMAGE Business the numbers would double, for a third, they would triple, etc. The Minimum Gross Sales must be met for each individual Territory as described in Exhibit A of the Franchise Agreement.

If this is a Renewal Term, you will be required to meet the Minimum Monthly Gross Sales requirement for the greater than 48 month level for the entirety of the Renewal Term.

For the purpose of this section, the second year of operations begins 12 months from the date of successful completion of Initial Training, the third year of operations begins 24 months from the date of successful completion of Initial Training and so on.

**G. ADVERTISING FEES.**

Throughout the term of the Agreement you will be required to contribute 2% of the Business' Gross Sales, to the System's National Marketing Fund on a monthly basis (the "National Marketing Fund Contribution"), in the same manner in which you pay the monthly Royalty Fee. We shall have the right to require that any advertising cooperative or franchisee advisory council be formed, changed, dissolved or merged. We will use the National Marketing Fund contributions, in its sole discretion, to develop, produce and distribute national, regional and/or local advertising and to create advertising materials and public relations programs which promote, in our sole judgment, the services offered by System franchisees and Managing Operators. We shall have the sole right to determine contributions and expenditures from the National Marketing Fund, or any other advertising program, and the sole authority to determine, without limitation, the selection of the advertising materials and programs, provided, however, that we will make a good faith effort to expend National Marketing Fund contributions in the general best interests of the System on a national or regional basis. We may use the National Marketing Fund to satisfy any and all costs of maintaining, administering, directing, preparing, producing, and implementing advertising, including the cost of: (i) preparing, producing, and implementing television, radio, magazine and newspaper advertising campaigns; (ii) direct mail and outdoor billboard advertising; (iii) public relations activities and advertising agencies; (iv) developing and maintaining an Internet website; and (v) personnel and other departmental costs for advertising that we internally administers or prepares. Nevertheless, you acknowledge that not all System franchisees and Managing Operators will benefit directly or on a pro rata basis from such expenditures. While we do not anticipate that any part of the National Marketing Fund contributions will be used for advertising which is principally a solicitation for Managing Operator businesses or traditional franchise businesses, we reserve the right to use the National Marketing Fund for public relations or recognition of the 1 800 WATER DAMAGE® brand, for the creation and maintenance of a website, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." We may periodically assist franchisees and Managing Operators to maintain high quality standards through customer surveys, customer interviews, and

other similar initiatives ("Surveys"). The cost of such programs will be borne by the National Marketing Fund. We have the right to reimburse ourselves from the National Marketing Fund contributions for such reasonable costs and overhead, if any, that we may incur in activities reasonably related to the direction and implementation of the National Marketing Fund.

We are not required to contribute to the National Marketing Fund, and we may, but are not obligated to, advance money to the National Marketing Fund to fund National Marketing Fund programs. In the event that we advance monies to the National Marketing Fund, we will determine, in our sole discretion, the manner and timing for the repayment of some or all of the funds we advanced. We will prepare on an annual basis, within 120 days of the end of the fiscal year, and make available to you upon written request, a statement of contributions and expenditures for the National Marketing Fund. The National Marketing Fund does not have to be independently audited.

You agree to actively advertise and promote the Franchised Business within the Territory. We require you to expend a minimum of three percent (3%) of the Gross Revenue of the Business each month on marketing, advertising, and promotional programs at the local level (the "Local Marketing Requirement"), but recommend that you spend amounts in excess of 3% on local marketing and advertising.

You must fulfill the Local Marketing Requirement within the Territory only, as we prescribe in our 1-800 WATER DAMAGE System Standards or otherwise in writing. You may spend any additional sums you wish on local advertising. However, you must use only such advertising and promotional materials as we have previously approved, as more fully described below.

As part of your local marketing, you promise to acquire and maintain a landline telephone number that is dedicated to your 1-800 WATER DAMAGE Business, which must have a local area code that is assigned to the Territory. You promise to continually list the Business on the Internet telephone directory site.

Any other forms of advertising that would also advertise inside the Territory must be approved by us in writing according to the procedure described in the next paragraph.

You must use our approved advertising and marketing materials or receive our written approval of any and all other advertising and marketing materials from us before their first use. In order to obtain approval of advertising and marketing materials, you must submit such proposed advertising material to us for review at least ten (10) business days before the proposed first use. If we take no action within such ten (10) business day period, the materials shall be deemed disapproved and you may not use such materials. The approval or disapproval is at our sole discretion. We also may, at our sole discretion, require you to immediately discontinue use of any advertising or marketing materials at any time, even if previously approved or provided by us. All advertising and marketing materials must meet our then current standards and specifications. We may, in our sole discretion, offer and sell advertising, marketing, and promotional materials at any time. Certain items, such as your truck and yard signs must reference the 1-800 WATER DAMAGE National Toll Free number. You may not alter or remove reference to the Toll Free number.

## H. MANAGEMENT SOFTWARE LICENSING AGREEMENT AND FEES; COMPUTER SYSTEM; INTRANET.

Throughout the term of this Agreement, you must:

1. utilize our then-current franchise management software system in the operation of the 1-800 WATER DAMAGE Business (the "WATER DAMAGE Software");

2. utilize our then-current estimating software. We will provide you access to the Xactware's Xactimate and XactAnalysis platforms (the "Platforms") under our existing license. You agree to comply with the applicable hardware, software and other technical and pre-setup requirement for its use of the Platforms as Franchisor or the licensor may establish from time to time;

3. sign and maintain a quarterly renewable WATER DAMAGE Software licensing agreement (attached as Exhibit C to this Agreement);

4. pay the then-current monthly technology fee for the WATER DAMAGE Software (the "Technology Fee") in the same manner as you pay the monthly Royalty Fee; and

5. utilize, sign a license agreement for, and pay for, any future proprietary software program we may designate for use with the System.

We shall have the right to specify or require that certain brands, types, makes, and/or models of communications, computer systems, and hardware be used by you, including without limitation: (i) a compatible "back office" computer system that complies with our standards and specifications; (ii) a custom and proprietary point of sale system (the "POS System"), if we make such a POS System part of our proprietary operating system in the future; (iii) printers and other peripheral hardware or devices; (iv) archival back-up systems; (v) Internet access mode and speed; and (vi) physical, electronic, and other security systems (collectively, the "Computer System").

We shall have the right, but not the obligation, to develop or designate: (i) computer software programs you must use in connection with any component of the Computer System, including the WATER DAMAGE Software (the "Required Software"), which you shall install at your own expense; (ii) updates, supplements, modifications, or enhancements to the Required Software, which you shall install at your own expense; (iii) the tangible media upon which you record data; and (iv) the database file structure of the Computer System. You will be responsible for the payment of all fees associated with the Required Software, Computer System, WATER DAMAGE Software and POS System.

At our request, you shall purchase or lease, and thereafter maintain, the Computer System, WATER DAMAGE Software, and, if applicable, the Required Software. You agree to pay all fees associated with the use of WATER DAMAGE Software and any other Required Software, which may be payable to us or our approved or designated suppliers. You expressly agree to strictly comply with our standards and specifications for all items associated with your Computer System, WATER DAMAGE Software and any Required Software, including any security software. You agree, at your own expense, to keep your Computer System in good maintenance and repair and install such upgrades, additions, changes, modifications, substitutions, and/or replacements to your Computer System or Required Software as we direct

from time to time in writing. You agree that your compliance with this Section shall be at your sole cost and expense.

We may require that your Computer System be programmed to automatically transmit data and reports about the operation of the 1-800 WATER DAMAGE Business to us. We shall also have the right to, at any time without notice, electronically connect with your Computer System to monitor or retrieve data stored on the Computer System or for any other purpose we deem necessary. There are no contractual limitations on our right to access the information and data on your POS System, WATER DAMAGE Software, and Computer System. You shall deliver to us all access codes, static Internet protocol ("IP") addresses and other information to facilitate our access to the data described in this Section within 30 days of opening the 1-800 WATER DAMAGE Business.

You must obtain the computer hardware necessary to implement the WATER DAMAGE Software, and comply with all specifications and standards prescribed by us regarding the WATER DAMAGE Software as provided in the Operations Manual. We reserve the right to create additional proprietary software programs, which you must use in connection with the 1-800 WATER DAMAGE Business. This WATER DAMAGE Software will be our proprietary product, and the information collected therefrom will be deemed our confidential information.

You are required to participate in any System-wide computer network, intranet system, or extranet system that we implement and may be required by us to use such computer network, intranet system, or extranet system to, among other things: (i) submit your reports due under this Agreement to us online; (ii) view and print portions of the Operations Manual, including any updates or modifications thereto; (iii) download approved local advertising materials; (iv) communicate with us and other 1-800 WATER DAMAGE franchisees; and (v) to complete any initial or ongoing training. You agree to use the facilities of any such computer network, intranet system or extranet system in strict compliance with the standards, protocols, and restrictions that we include in the Operations Manual, including those related to the encryption of confidential information and prohibitions against the transmission of libelous, derogatory or defamatory statements.

## I. HIGH SPEED INTERNET CONNECTION, ELECTRONIC MAIL NETWORK, WEBSITE AND BUSINESS PHONE.

You promise to subscribe to, maintain, and utilize a DSL, cable, or satellite high speed Internet connection and email network account with independent suppliers which periodically we approve. If you do not receive written approval within ten (10) days of our written receipt of your request, such supplier will be considered disapproved. You may not use the Marks in any fashion in the domain name portion of the email. You also promise to use, subscribe to, and pay for, as directed by us, a customized website connected to our website and managed by our website provider. You may not attempt to redirect the customized website. You also promise to subscribe to, maintain, and utilize the phone model, type and provider that we designate as well as the phone service from the company we designate. As technology advances and new discoveries are made, we have the right to require that you use other technological items, as well as to designate the specific companies, models and/or types that you must use for these technological services.

You also promise to use, subscribe to, and pay for, as directed by us, a customized website connected to our website and managed by our website provider. You may not attempt to redirect any traffic on the customized website. You may not implement a website or URL for the 1-800 WATER DAMAGE Business either yourself or through a third party provider. We have sole discretion and control over the website (including timing, design, contents and continuation).

We may, but are not obligated to, create interior pages on the website(s) that contain information about the 1-800 WATER DAMAGE Business and other 1-800 WATER DAMAGE Businesses. If we do create such pages, we may require you to prepare all or a portion of the page for the 1-800 WATER DAMAGE Business, at your expense, using a template that we provide. All such information will be subject to our approval prior to posting.

Except as approved in advance in writing by us, you must not establish or maintain a separate website, splash page, profile or other presence on the Internet, or otherwise advertise on the Internet or any other public computer network in connection with the 1-800 WATER DAMAGE Business, including any profile on Facebook, MySpace, Twitter, LinkedIn, Plaxo, YouTube, Pinterest, Instagram, or any other social media and/or networking site. If such approval is granted by us, you must: (i) establish and operate such World Wide Web or Internet site in accordance with System standards and any other policies we designate in the Operations Manual or otherwise in writing from time to time; and (ii) utilize any templates that we provide to you to create and/or modify such site(s).

We shall provide you with up to six (6) email address(es), as it deems appropriate in its discretion that will have, as its suffix, "@1800waterdamage.com" for all business related matters.

We shall have the right to modify the provisions of this Section.

We may use a portion of the National Marketing Fund contributions or the monthly usage/support/upgrade fee to pay or reimburse ourselves for the costs incurred in connection with the development, maintenance and update of our website.

## J. ADMINISTRATIVE FEE.

When you ask us to amend this Agreement or when an amendment is required by your actions, or when you ask us to consent to various transactions or to services for which a specific fee is not imposed elsewhere in this agreement or the System, you must pay to us the then-current administrative fee (the "Administrative Fee") in effect.

## K. COLLECTION FEE.

We retain, as we deem appropriate, the right to contact Customers who are delinquent in their payment of 90 days or more, initiate collection procedures on your behalf, and take the full amount of any Royalty owed to us from any amounts collected and apply collection fees up to an additional ten percent (10%) (the "Collection Fee") of the amounts collected on your behalf. We will credit you with any amounts collected, net of any Royalties and Collection Fees. You may not sue or otherwise hold us liable in any way for our pursuit of these collection procedures.

## L. OUTSTANDING ROYALTY FEES AND FEES OF PREDECESSOR.

In the event you were awarded your 1-800 WATER DAMAGE Business as a result of your purchase of all or substantially all of the assets of the 1-800 WATER DAMAGE Business owned by a previous franchisee in the Territory, you promise to pay us the following fees if they are not timely paid by your predecessor:

1. Our current transfer fee to defray expenses we incur in the transfer; and
2. Any and all outstanding Royalty Fees, Referral Fees, amounts owed for purchases from us, Late Payment Fees, Late Report Fees, Interest Fees, NSF Fees and any other fees owed, plus interest, as well as any applicable broker fees, whether incurred by you or by your predecessor franchisee.

## M. ANNUAL CONVENTION ALLOWANCE, CONVENTION SAVINGS AND CONVENTION NON-ATTENDANCE FEE.

At the start of each calendar year, we will deduct from your account a monthly amount of $100 via EFT, which will be applied toward a convention savings (the "Convention Savings"). The Convention Savings collected throughout the calendar year will be rebated to you within 60 days after your full attendance at the Annual Convention. If you do not attend the Annual Convention and did not receive our prior written permission for not attending, the Convention Savings or the Convention Allowance (for those franchisees who did not attend the first Annual Convention), will be applied to the penalty fee for not attending (the "Convention Non-Attendance Fee").

## 3. TRAINING AND GENERAL GUIDANCE.

## A. TRAINING.

Your Managing Owner and, if applicable, Designated General Manager, must successfully complete our JumpStart training program ("Jump Start") within one (1) month of signing this Agreement. Jumpstart is a self-guided process, with additional guidance from our training team, along with the Operations Manuals. You will review the Operations Manuals, complete a Territory assessment, review training videos, set up the bank account, form the corporate entity and other tasks related to the opening of the Business. All Jumpstart activities are to be completed before attending initial training and before the opening of the Franchised Business and are to be conducted in your hometown by you with assistance from our home office staff. You shall begin Jumpstart immediately upon your signing and returning to us the Franchise Agreement and all initial fees. All costs associated with Jumpstart are included in the Initial Fee. During Jumpstart, we will schedule the business and technical training (the "Initial Training") for you to attend at a later time (collectively, the Jump Start and Initial Training are referred to as the "Initial Training Program"). Initial Training sessions are typically offered each month.

You will manage the Business from an office (the "Office") located within the Territory. You are responsible for locating the Office within the Territory which meets our site selection criteria as stated in the Operations Manual.

We may waive your attendance at the Initial Training if you already operate a Franchised Business and you purchase an additional franchise from us.

Before you begin operating the 1-800 WATER DAMAGE Business, we will furnish the Initial Training to the Managing Owner or, if applicable, the Designated General Manager, at no

additional fee. The Managing Owner or, if applicable, the Designated General Manager must complete the Initial Training to our satisfaction within four months of signing this Agreement, and failure to do so will result in the termination of this Agreement. The Initial Training may not commence until you have paid all fees due to us.

The Initial Training will last up to 17 days in duration at our headquarters or another location designated by us. You will be responsible for all travel and living expenses that you and your employees/owners incur for this Initial Training.

In the event that you own multiple 1-800 WATER DAMAGE Businesses and have your Managing Owner already at another 1-800 WATER DAMAGE Business who has already completed the Initial Training, the Managing Owner will still be required to successfully complete the most recent online training modules essential to the role of ownership.

You may designate, with our approval and on a "space available" basis, additional persons to attend other sessions of the Initial Training for which you will be charged our then-current Initial Training fee. In addition, each person we approve to attend the Initial Training will be required to sign our then-current form of confidentiality and non-disclosure agreement before the start of training. The Initial Training fee will be due and payable before the start of the training program and you will be responsible for the payment of all travel and living expenses incurred by your designees while training.

The Managing Owner or, if applicable, the Designated General Manager, must attend the 1-800 WATER DAMAGE Annual Convention every year. The Managing Owner or, if applicable, Designated General Manager also must attend periodic refresher training courses and conferences, not to exceed one (1) convention/conference per year, at the times and locations we determine, and for which we may charge fees. We will determine the duration, curriculum, and location of any such sessions. You will be responsible for all travel and living expenses that are incurred by you or your employees/owners while attending such session.

In the event that the Designated General Manager terminates his or her employment with you, you are required to designate a successor for our written approval, which we will grant in our sole discretion, within ten (10) days of such termination. Such successor Designated General Manager must attend the next available Initial Training. In the event, that the successor Designated General Manager does not successfully complete the next available Initial Training, you may appoint one (1) additional person as the successor Designated General Manager. This second successor Designated General Manager must attend and successfully complete the next available Initial Training. If this second successor Designated General Manager does not successfully complete the next available Initial Training, you will be in default of this Agreement and this Agreement will be subject to termination pursuant to Section 12 of this Agreement. At all times during the term of this Agreement, you must have employed at the 1-800 WATER DAMAGE Business a person who has completed the Initial Training Program.

If this is a Renewal Term or if this is an additional 1-800 WATER DAMAGE Business being awarded to you, and your Managing Owner or, if applicable, the Designated General Manager, have already attended Initial Training, the requirement that you attend the Initial Training is waived, except as described above with respect to the online training modules and continuing training obligations. In such cases, if your Managing Owner or, if applicable, the Designated General Manager do attend Initial Training, you will be assessed our then-current training fee. You will also be responsible for all travel and living expenses that you and your employees/owners incur while training.

Before you begin operating the 1-800 WATER DAMAGE Business, you must also employ a full-time experienced service technician (the "Service Technician") who will be responsible for performing and overseeing your Remediation Services. It is your responsibility to train the Service Technician to our specifications. Furthermore, you agree to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the 1-800 WATER DAMAGE Business.

The Service Technician may be required attend periodic refresher training courses and conferences, not to exceed one (1) session per year, at the times and locations we determine, and for which we may charge fees. We will determine the duration, curriculum, and location of any such sessions. You will be responsible for all travel and living expenses that incurred while attending such session.

In the event that the Service Technician terminates his or her employment with you, you are required to designate a successor for our written approval, which shall be in our sole discretion, within ten (10) days of such termination. You are responsible for training any successor Service Technician. At all times during the term of this Agreement, you must have employed at the 1-800 WATER DAMAGE Business a person who has completed the technical portion of the Initial Training.

**B. GENERAL GUIDANCE.**

You will have access to information helpful to the operation of the 1-800 WATER DAMAGE Business based on reports you submit to us and/or inspections that we make. In addition, we may furnish guidance to you, to the extent we determine necessary in our sole discretion, on the following topics:

1. new products, services, and methods which we may have discovered or have developed for the System;

2. the purchase and use of supplies, uniforms, equipment, and products;

3. review of work order estimates and invoices;

4. the formulation and implementation of advertising and promotional programs using such merchandising, marketing, and advertising research data and advice as we may periodically develop for use in your local market;

5. the financial and daily operation of the 1-800 WATER DAMAGE Business including its accounting and record keeping functions;

6. support for the System Software; and

7. other business and marketing advice.

This guidance will, at our discretion, be furnished in our confidential Operations Manual, bulletins, or other written materials, conferences, conventions, or other training sessions, toll-free telephone consultations, electronic communications, and in consultations at our office or the offices of the Business.

## C. REFERENCE GUIDE.

The various elements of our 1-800 WATER DAMAGE Business System are incorporated into the operations manual, online training modules and the 1-800 WATER DAMAGE owner's intranet website (collectively, the "Operations Manual"). The Operations Manual will contain mandatory and suggested specifications, standards, operating procedures, and rules (the "System Standards") that we prescribe periodically for the operation of a Business, and information on your other obligations under this Agreement and related agreements. We may modify the Operations Manual periodically to reflect changes in the System Standards.

You promise to keep your copy of the Operations Manual current and in a secure location in the principal office of the 1-800 WATER DAMAGE Business. If there is a dispute over its contents, the master copy of each of the Operations Manual that we maintain at our principal office will be controlling. You may not at any time copy, duplicate, record, or otherwise reproduce any part of the Operations Manual. If all or any of the Operations Manual are lost, destroyed, or significantly damaged, you promise to obtain replacements at our then applicable charge.

## D. DELEGATION OF PERFORMANCE.

You agree that we have the right to delegate the performance of any portion or all of our obligations and duties under this Agreement to designees, whether these designees are our agents or independent contractors with whom we have contracted to perform these obligations.

## E. OPERATIONS MANUAL.

Upon attendance at the Initial Training, we will loan to you one (1) or more manuals, technical bulletins or other written or electronically recorded materials covering the proper operating and marketing techniques of the 1-800 WATER DAMAGE Business. Such written or electronically recorded materials, including the 1-800 WATER DAMAGE owner's intranet website, plus all directives, books, pamphlets, bulletins, memoranda, order forms, packing slips, invoices, letters, e-mail, Internet or Intranet data, or other publications, documents, software programs, video tapes, transmittances or communications, in whatever form (including electronic form) prepared by or on behalf of us for use by the 1-800 WATER DAMAGE franchisees generally or for you in particular, setting forth information, advice and standards, requirements, operating procedures, instructions or policies, as same may be added to, deleted or otherwise amended by us from time to time in our sole discretion, relating to the operation of the 1-800 WATER DAMAGE Business, are all considered as part of the "Operations Manual." You agree that the Operations Manual is specifically incorporated by reference into this Agreement and that it shall be considered a part hereof, and that you shall comply with the Operations Manual as an essential aspect of your obligations under this Agreement and failure by you to substantially comply with the Operations Manual may be considered a breach of this Agreement. To the extent that any terms in this Agreement conflict with those in the Operations Manual, this Agreement shall govern and supersede such conflicting terms.

You agree to use the Marks and System only as specified in the Operations Manual. The Operations Manual is the sole property of us and shall be used by you only during the term of this Agreement and in strict accordance with the terms and conditions hereof. You agree that such Operations Manual shall be deemed to be a trade secret and you shall not duplicate the Operations Manual nor disclose its contents to people other than your employees or officers who

need the information contained therein to perform their jobs and who have signed a nondisclosure and noncompetition agreement in a form approved by us. You shall furnish copies of all such nondisclosure and noncompetition agreements to us immediately upon execution. You shall not make any paper or electronic copies of the Operations Manual without our prior written consent. You shall return the Operations Manual, together with all copies of any portion thereof, to us immediately upon the expiration, termination or assignment of this Agreement.

We reserve the right to revise the Operations Manual from time to time in our sole discretion as we deem necessary to update operating and marketing techniques or standards and specifications. You shall immediately update your copy of the Operations Manual as instructed by us and shall conform your operations with the updated provisions as soon as practicable, but no later than 30 days after receipt of receipt of any updated information, unless otherwise agreed to in writing us. You acknowledge that the master copy of the Operations Manual maintained by us at our principal office shall be controlling in the event of a dispute relative to the content of any Operations Manual.

If all or any of the Operations Manual is lost, destroyed, or significantly damaged, you promise to obtain replacements at our then applicable charge.

## 4. MARKS.

### A. OWNERSHIP AND GOODWILL OF MARKS.

1. You acknowledge that we own and have all rights to the Marks.
2. Your right to use the Marks is derived only from this Agreement and is limited to your operation of the 1-800 WATER DAMAGE Business in accordance and in compliance with this Agreement and all System Standards we prescribe from time to time during its term.
3. You promise to use only the Marks that we designate in writing, and to use them only in the manner that we authorize.
4. You agree that your use of the Marks, and any goodwill established by this use, will be exclusively for our benefit and that this Agreement does not confer any goodwill or other interest in the Marks upon you (other than the right to operate a 1-800 WATER DAMAGE Business under this Agreement). Upon expiration or termination of this Agreement, no monetary amount will be assigned as attributable to any goodwill associated with your use of the System and the Marks.
5. All provisions of this Agreement applicable to the Marks apply to any additional proprietary trade and service marks and commercial symbols that we authorize you to use.
6. The right and license of the Marks awarded to you under this Agreement is non-exclusive, and we may:
    a. award other licenses and franchises for the Marks, in addition to those licenses and franchises already awarded;
    b. use the Marks in connection with marketing and selling of any products and services as we deem appropriate; and

c. develop and establish other systems using the Marks, similar proprietary marks, or any other proprietary marks, and grant licenses thereto without providing any rights therein to you.

## B. NOTIFICATION OF INFRINGEMENTS AND CLAIMS.

You promise to notify us immediately of any apparent infringement or challenge to your use of any Mark, or of any claim by any person of any rights in any Mark, and not to communicate with any person other than us and our attorneys, and your attorneys, in any infringement, challenge, or claim. We have sole discretion to take the action we deem appropriate and the right to control exclusively any litigation, U.S. Patent and Trademark Office ("USPTO") proceeding, or any other administrative proceeding arising out of any infringement, challenge, claim or otherwise relating to any Mark. Provided that you have timely notified us of the claim or proceeding and complied with this Agreement as we determine in our sole discretion, we shall indemnify and hold you harmless against any loss or expense incurred in connection with any such infringement, challenge or claim. If we, in our sole discretion, determine that you have not used the Marks in accordance with this Agreement, you will bear the cost of such defense, including the cost of any judgment or settlement. You promise to sign any and all instruments and documents, render the assistance, and do the acts and things that, in the opinion of our attorneys, may be necessary or advisable to protect and maintain our interests in any litigation or USPTO or other proceeding, or otherwise to protect and maintain our interest in the Marks, including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks in a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

## C. LIMITATIONS ON YOUR USE OF MARKS.

1. You promise to use the Marks as the only identification of the Business, except that you must identify yourself as the owner of an independent entity in the manner that we prescribe.

2. You promise to affix the Marks upon such vehicles, uniforms, equipment, containers, fixtures, signs, stationary, advertising, sales/promotional materials, and such other objects, in such size, color, lettering style and fashion, and at such places as we may designate in the Operations Manual.

3. You promise to not use the Marks, or any words or symbols confusingly similar to them, as part of any corporate or other legal name or with any prefix, suffix, or other modifying words, terms, designs, or symbols. You may not use the Marks in connection with the sale of any unauthorized product or service, on an Internet website of your own design, or in any other manner not explicitly authorized in writing by us.

4. Except as expressly provided in the Operations Manual, you may not display any other trademarks, logotypes, symbols, or service marks, nor may you use any other marks in connection with the Marks, or with the 1-800 WATER DAMAGE Business, without our prior written approval.

5. You promise that all advertising and promotional materials that you use will bear the appropriate "SM," "TM," "®," or "©" registration symbol and/or such other appropriate notice of ownership, registration, or copyright as we may require.

6. You promise to submit to us, for our approval, the assumed or trade name (the "DBA") you intend to use in the operation of the 1-800 WATER DAMAGE Business before filing for it as required by local laws. We may approve or disapprove such DBA at our discretion. All filings or affidavits, following your receipt from us of an approved DBA, must state that the filing or affidavit is made as "a franchisee of 1-800 WATER DAMAGE." The approved DBA is the only DBA that you may use. You may not use a different name under any circumstances, including as a domain name, URL address, marketing, or for any other function.

7. We are the lawful and sole owner of the domain name www.1800WATERDAMAGE.com. You cannot register any of the Marks that are now or in the future owned by us or any abbreviation, acronym or variation of the Marks, or any other name that could be deemed confusingly similar, as Internet domain names. We retain the sole right to advertise the System on the Internet and to create, operate, maintain and modify, or discontinue using of website using the Marks. You may access our website. Except as we authorize in writing in advance, you may not: (i) link or frame our website; (ii) conduct any business or offer to sell or advertise any products or services on the worldwide web; or (iii) create or register any Internet domain names in connection with your 1-800 WATER DAMAGE Business. The only exception is that you may list the 1-800 WATER DAMAGE Business in an online directory.

8. In order to obtain approval of any use of the Marks, including all advertising containing any Marks, your identification or your DBA, you must submit such proposed use, identification or DBA to us for review at least ten (10) business days before the proposed first use. If we take no action within such ten (10) business day period, such use, identification or DBA shall be deemed disapproved. The approval or disapproval is at our sole discretion. We also may, at our sole discretion, require you to immediately discontinue use of any Mark, advertising, identification or DBA at any time, even if previously approved or provided by us.

9. You must submit and receive our written approval in advance for any person that you desire to act as a representative for you in connection with local promotion of the Franchised Business or Marks in a public media.

## D. DISCONTINUANCE OF USE OF MARKS.

If it becomes advisable at any time in our sole discretion to modify or discontinue the use of any Mark and/or use one (1) or more additional or substitute names or marks, you must

comply with our direction no later than ten (10) days after you have received notice. We will not be liable to you for any expenses, losses, or damages you sustain as the result of any such addition, modification, substitution, or discontinuance of a Mark, and you must not commence or join in any litigation or other proceeding against us for any such expenses, losses, or damages.

## 5. CONFIDENTIAL AND PROPRIETARY INFORMATION.

### A. CONFIDENTIAL INFORMATION.

1. We possess (and will continue to develop and acquire) certain confidential information (the "Confidential Information") relating to the development and operation of 1-800 WATER DAMAGE Businesses. The Confidential Information includes (without limitation):

   a. general operating procedures for a 1-800 WATER DAMAGE Business;

   b. the proprietary WATER DAMAGE Software;

   c. personnel guidelines for hiring, training, retaining, promoting, and supporting the marketing and sales staff;

   d. the Initial Training;

   e. written marketing and advertising materials, audiotapes, videos, and programs for their utilization;

   f. knowledge of specifications and suppliers of certain equipment and supplies for the 1-800 WATER DAMAGE Business;

   g. information on operating results and financial performance of 1-800 WATER DAMAGE Businesses other than your own;

   h. The Operations Manual and the 1-800 WATER DAMAGE owners intranet website and its contents;

   i. sales guidelines and strategies for developing business relationships in the insurance industry;

   j. The Customer Information, as defined in Section 5.B below; and

   k. Any other information we deem confidential.

2. You acknowledge and agree that you do not acquire any interest in Confidential Information, other than the right to utilize that which is disclosed to you in operating the 1-800 WATER DAMAGE Business during the term of this Agreement, and that the use or duplication of any Confidential Information in any other business would constitute an unfair method of competition. You also acknowledge and agree that the Confidential Information is proprietary, includes

our trade secrets, and is disclosed to you only on the condition that you promise to, during and at all times after the term of this Agreement:

a. not use Confidential Information in any other business or capacity;

b. maintain the absolute confidentiality of Confidential Information;

c. not make unauthorized copies of any portion of Confidential Information disclosed via electronic medium or in written or other tangible form;

d. adopt and implement all reasonable procedures that we prescribe from time to time to prevent unauthorized use or disclosure of Confidential Information, including, without limitation, restrictions on disclosure to employees of the 1-800 WATER DAMAGE Business and others; and

e. immediately upon the expiration of termination of this Agreement, return and cease using in any way all Confidential Information and provide us with immediate access to all computer or other electronic or other storage media, including without limitation, hard drives, memories, CD's, floppy disks, DVDs, zip drives, PDAs, jump drives or other peripheral drives and memory cards, containing any Confidential Information for the purpose of removing such Confidential Information or, if mutually agreed upon, surrender such devices to us.

3. The foregoing restrictions will not apply to the information that:

a. is now public knowledge or hereafter becomes public knowledge through no fault of yours;

b. is properly provided to you without restriction by a third party having no such restriction;

c. is required to be disclosed by order of a competent court or governmental authority, provided, however, that you provide us with prompt written notice of any claim or litigation that could give rise to such a requirement, you furnish only that portion of the Confidential Information that you are required to disclose, and you advise the governmental authority of your confidentiality obligations under this Agreement and seek to obtain appropriate protective orders or other assurance satisfactory to us of confidential treatment for the information required to be so disclosed.

4. You must disclose to us all ideas, concepts, methods, techniques and products concerning the development and operation of the Business that you, the Managing Owner or the Designated General Manager or employees, conceive or develop during the term of this Agreement. We shall own the rights to all such ideas, concepts, methods, techniques and products, regardless of the source and you must grant to us and agree to procure from your affiliates, owners or employees a perpetual, royalty-free, exclusive and worldwide right to use such ideas, concepts, methods, techniques and products concerning the development and operation of the Business that your or your employees conceive or develop during the term of this Agreement. You must sign

all documents we request to evidence our ownership or to assist us in securing intellectual property rights in such ideas, concepts, techniques or materials. We will have no obligation to make any lump sum or on-going payments to you with respect to any such idea, concept, method, technique or product. You must agree that you will not use nor will you allow any other person or entity to use any such concept, method, technique or product without obtaining our prior written approval.

**B. PROPRIETARY INFORMATION/CUSTOMER LISTS/ INBOUND AND OUTBOUND CALL LISTS.**

You acknowledge and agree that we own any and all Customer lists and their contents that we provide to you and/or that you subsequently develop during the normal course of operating the Business. You promise to keep an up-to-date list of all current and former Customers in the WATER DAMAGE Software, including their name, telephone number, complete mailing address, frequency of service, last date serviced, and price of service ("Customer Information"). You acknowledge and agree that we have available to us through the WATER DAMAGE Software, an electronic copy of a complete list of current and former Customers, including their name, telephone number, complete mailing address, frequency of service, last date serviced, and price of service, and other information concerning such Customers. You may not enter the Customer Information into any software other than the WATER DAMAGE software without our prior written permission. You acknowledge and agree that we may have available to us through the phone company that we designate a listing of all inbound and outbound calls. The information will be utilized periodically in the development and execution of various marketing strategies for the mutual benefit of you and us. We retain sole discretion in the development of all marketing strategies. You promise not to use any Customer Information for any purpose other than in the normal operation of the Business without our prior written approval. You may not file suit against any of our Customers without our prior express written permission. We reserve the right to communicate with people on the Customer list.

**6. COVENANTS NOT TO COMPETE.**

**A. FOR YOU.**

During the term of this Agreement, neither you and your Managing Owner, Managing Owner's immediate family members, your Designated General Manager (if applicable) and Service Technician shall not:

1. engage as an owner, partner, shareholder, director, officer, employee, consultant, agent, or in any other capacity in any other business offering Remediation Services that are the same as or similar to the services sold by the 1-800 WATER DAMAGE Business and/or the services provided by our affiliates (except for other franchises or authorizations we enter into with you);

2. use our Confidential Information, System, 1-800 WATER DAMAGE owners' intranet website, Operations Manual, Marks, Customer lists, Customer Information, trade secrets, trade dress, proprietary knowledge, or know-how, or any colorable imitations, in the design, development, or operation of any business other than the 1-800 WATER DAMAGE Business franchised hereunder, unless specifically authorized by us;

3. Employ or seek to employ any person who is at that time employed by us, our affiliates or any other 1-800 WATER DAMAGE Business, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

4. Divert or attempt to divert any business or customer of the 1-800 WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System.

**B. YOUR EMPLOYEES.**

At the start of their employment, you must require, as consideration for employment, each of your Service Technicians, sales and/or account management employees to sign non-disclosure and confidentiality agreements that we have specified or approved. Such agreements will prohibit disclosure, by the employee to any other person or legal entity, of any trade secrets, customer lists, or other information, knowledge, or know-how regarding the System or the operation of the Business, which is deemed confidential and/or proprietary by us. Such employee non-disclosure and confidentiality agreements will, to the fullest extent permitted by applicable law, prevent employees from servicing or soliciting any of the customers of your Business, except in their capacities as employees of the Business. We may require that a fully signed copy of each technician and sales/account management employee confidentiality and non-disclosure agreement be sent to us.

**C. OUR RIGHT TO ENFORCE NON-COMPETITION COVENANTS.**

You agree and acknowledge that a violation of the covenants not to compete as listed in this Section and/or in Section 13.D will result in immediate and irreparable injury to us for which no adequate remedy at law will be available. Accordingly, you consent to the entry of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete. Further, you expressly agree that the existence of any claims you may have against us, whether or not arising from this Agreement or otherwise, will not constitute a defense to the enforcement by us of these covenants not to compete. You promise to pay all costs and expenses (including reasonable attorneys' and experts' fees) incurred by us in connection with the enforcement of these covenants not to compete, if you are found to be in violation of your confidentiality and/or your non-competition obligation(s) under this Agreement. The protection awarded in this Section and/or in Section 13.D will be in addition to, and not in lieu of, all other protections for such trade secrets and confidential information as may otherwise be afforded in law or in equity.

The parties expressly agree that the time and geographical limitations contained in this Section and in Section 13.D are reasonable and necessary to protect us and other franchisees from unfair competition if this Agreement expires or is terminated for any reason.

**D. INTENT AND ENFORCEMENT.**

It is the parties' intent that the provisions of this Section 6 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction

in scope or modification of any part of the non-competition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 6 by Owner, or any immediate family member of Owner(s), which shall be defined as a spouse, sibling or adult child participating in the Business, Designated General Manager (if applicable) and Service Technician, we shall be entitled to an injunction restraining such person from any such actual or threatened breach. Owner(s) agrees that in the event of the actual or threatened breach of this Section 6, our harm will be irreparable and that we have no adequate remedy at law to prevent such harm. Owner(s) acknowledges and agrees on Owner(s) own behalf and on behalf of the persons who are liable under this Section 6 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 6 in no way prevent any such person from earning a living. Owner(s) further acknowledges and agrees that the time limitation of this Section 6 shall be tolled during any default under this Section.

## 7. SYSTEM STANDARDS.

## A. COMPLIANCE WITH SYSTEM STANDARDS.

You acknowledge and agree that the operation and maintenance of your 1-800 WATER DAMAGE Business according to System Standards is essential to preserve the goodwill for the Marks and all 1-800 WATER DAMAGE franchisees. Therefore, at all times during the term of this Agreement, you agree that the Managing Owner or, if applicable, the Designated General Manager, devote your full-time best efforts to operate and maintain your Business according to each and every System Standard, even if you believe that a System Standard is not in the System's or your franchise's best interests. System Standards may be periodically modified and supplemented during the term of this Agreement and you must comply with any such changes immediately upon notice to you. Furthermore, you must use your best efforts to assure that your employees and representatives conduct themselves, during business hours and/or whenever they are in a vehicle with a 1-800 WATER DAMAGE logo, or a company uniform with a 1-800 WATER DAMAGE patch, in a manner which is consistent with the professional and ethical image of the System.

You will offer and provide all of the Services that we periodically require for 1-800 WATER DAMAGE franchisees, and in the manner we prescribe.

System Standards, to be specified and periodically amended in the Operations Manual, may include, without limitation, standards and specification regarding:

1. use and display of the Marks;

2. Services and products which we authorize you to sell to the public;

3. the use of supplies and equipment;

4. a dress code, during business hours, for you, your employees and your representatives;

5. suppliers you may use for the purchase of uniforms for you, your employees and your representatives;

6. vehicle type, model, color, supplier, trademark representation, and appearance (no rust or body damage). These specifications are included in our Operations Manual. All vehicles purchased or leased for the 1-800 WATER DAMAGE Business are to be, and maintained, in a "good" condition as defined by KELLY BLUE BOOK ("good" condition means that the vehicle is free of any major defects). The paint, body and interior must have only minor (if any) blemishes, and there may not be any major mechanical problems. In states where rust is a problem, this should be very minimal. All vehicles used in connection with the business are to be decaled as required by 1-800 WATER DAMAGE and the decals are to be free of defects. You will be required to submit photos of all vehicles used in connection with the 1-800 WATER DAMAGE Business in the manner and format we prescribe. You may be required to purchase a new vehicle if you are unable to meet the specifications for vehicles outlined in the System Standards;

7. business forms and stationary;

8. designated and approved suppliers for business assets and supplies using our Marks;

9. designated suppliers for vehicles, equipment and supplies;

10. types and amounts of insurance coverage;

11. compliance with applicable laws including obtaining required licenses and permits, payment of all taxes, assessments, fees, fines, and penalties arising out of the operation of the 1-800 WATER DAMAGE Business;

12. adhering to good business practices, observing high standards of honesty, integrity, fair dealing, and ethical business conduct in all dealings with customers, suppliers, and us, and notifying us if any action, suit, or proceeding is commenced against you or your legal entity;

13. general operations including maintaining, sales, marketing, advertising, and promotional programs, call center usage, phone type/model/provider, and materials and media used in these programs, personnel practices, bookkeeping, accounting, data processing, and record keeping systems, and forms, methods, content, and frequency of reports to us of sales and financial performance, and the furnishing of tax returns related to the 1-800 WATER DAMAGE Business and other operating and financial information to us;

14. due to the emergency nature of the services provided by the Business, you must be available 24 hours a day, seven days a week to respond to service requests;

15. respond to any and all customers' inquiries or complaints within one (1) business day, and resolve it within seven (7) days of the initial complaint, to reasonably insure positive customer relations and maintain the goodwill of the System, even

when such response may necessitate re-performing a task not completed to the Customer's satisfaction or a refund of moneys received;

16. requiring installation, use and monthly maintenance of a global positioning system ("GPS") for your vehicle(s), including payment of monthly fees to a designated or approved GPS vendor;

17. any other aspect of the operation and maintenance of your 1-800 WATER DAMAGE Business that we determine periodically to be useful to preserve or enhance the efficient operation, image, or goodwill of the Marks and the System;

18. public figures you choose in connection with local promotions;

19. use of a phone system, computer, electronic mail and website that meets our requirements, as periodically updated;

20. marketing, advertising, and promotional material prepared by you;

21. number of employees to necessary provide prompt courteous service;

22. timing of the training of other employees for the 1-800 WATER DAMAGE Business;

23. necessary amounts of working capital; and

24. any other aspect of the operation and maintenance of your 1-800 WATER DAMAGE Business that we determine periodically to be useful to preserve or enhance the efficient operation, image, or goodwill of the Marks and the System.

You agree to refrain from committing any act or pursuing any course of conduct that tends to bring our Marks into disrepute.

You must use your best efforts to promote and increase the demand for 1-800 WATER DAMAGE Business. All of your advertising and promotion must be completely factual and conform to the highest standards of ethical advertising. You agree to refrain from any business or advertising practice which may be injurious to the 1-800 WATER DAMAGE Business or the goodwill associated with the Marks and System.

You are solely responsible for: (a) selecting, retaining and paying your employees; (b) the payment of all invoices for the purchase of goods and services used in connection with operating the 1-800 WATER DAMAGE Business; and (c) determining whether, and on what terms, to obtain any financing or credit that you deem advisable or necessary for the conduct of the 1-800 WATER DAMAGE Business. You agree to pay all current obligations and liabilities to suppliers, lessors, and creditors on a timely basis. You agree to indemnify us in the event that we are held responsible for debts owed by you if we elect to pay any of your obligations in order to preserve the relationship between system suppliers and 1-800 WATER DAMAGE franchisees. You agree to make prompt payment of all federal, state and local taxes, including individual and corporate taxes, sales and use taxes, franchise taxes, gross receipts taxes,

employee withholding taxes, FICA taxes, personal property and real estate taxes arising from your operation of the 1-800 WATER DAMAGE Business. You agree to indemnify us in the event that we are held responsible for these taxes.

You will have sole authority and control over the day-to-day operations of the 1-800 WATER DAMAGE Business and your employees and/or independent contractors. You agree to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the 1-800 WATER DAMAGE Business, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. At no time will you or your employees be deemed to be employees of us or our affiliates.

You shall meet and maintain the highest safety standards and ratings applicable to the operation of the 1-800 WATER DAMAGE Business. You shall furnish to us within two (2) days of your receipt thereof, a copy of all inspection reports and any violation or citation that indicates your failure to maintain federal, state, or local safety standards in the operation of the 1-800 WATER DAMAGE Business.

You acknowledge that we have developed the System to offer and sell Services that will distinguish the 1-800 WATER DAMAGE Business from other businesses that offer similar services valued at different prices and with less attention paid to service quality and customer service. You agree to offer Services and to operate the 1-800 WATER DAMAGE Business in such a manner that emulates and enhances the image we intend for the System. You further acknowledge and agree that each aspect of the System is important not only to you but also to us and to other 1-800 WATER DAMAGE franchisees in order to maintain the highest operating standards, achieve system-wide uniformity and increase the demand for the Services rendered by 1-800 WATER DAMAGE franchisees. You agree to comply with the standards, specifications and requirements we set forth in order to uniformly convey the distinctive image of a 1-800 WATER DAMAGE Business.

You must notify us, in writing, within five (5) days of the commencement of any action, suit or proceeding and the issuance of any order, suit or proceeding of any court, agency or other government instrumentality, including the receipt of any notice or citation, which may adversely affect the operation or financial condition of you or the 1-800 WATER DAMAGE Business.

## B. MODIFICATION OF SYSTEM STANDARDS.

You acknowledge and agree that the System must continue to evolve to reflect changing market conditions and to meet new and changing consumer demands. As a consequence, changes, modifications, and variations to the Systems Standards may be required periodically to preserve and enhance the public image of the System and enhance the operational efficiency of all 1-800 WATER DAMAGE franchisees.

You, therefore, agree that we may periodically, and upon reasonable notice to you, add to, modify, phase out, or change the System, including without limitation, the adoption and use of new or modified trademarks, uniforms, signs, vehicle types, telephone numbers and technologies, products, equipment, services, techniques, proprietary software, non-proprietary

software, methodologies and sales strategies. You promise to promptly accept, implement, use, and display in the operation of your 1-800 WATER DAMAGE Business, all such additions, modifications, and changes at your expense.

All products and materials must meet System Standards and specifications for representation of the Marks, and be pre-approved by us regardless of the supplier. In the event you wish to purchase an unapproved item, including inventory, and/or acquire approved items from an unapproved supplier, you must provide us a written request for approval, including a proof of the materials you wish to order. We will notify you in writing of our approval or disapproval within ten (10) days of receipt of the materials and your written request. We have no obligation to approve any particular products, service or supplier. If you do not receive approval within ten (10) days, you should consider the materials disapproved. All products and materials must meet the quality of our current suppliers, and correctly bear the Marks. Standards and specifications are periodically modified to meet changing market conditions and are published in our Operations Manual and on our web site. You must reimburse us our reasonable costs, regardless of if we subsequently approve your request.

Use of products and materials that have not received our prior written approval and/or do not meet our standards and specifications can result in the termination of this Agreement. Standards and specifications are updated periodically at our sole determination and are made available to you on our 1-800 WATER DAMAGE owners' intranet website and in the Operations Manual.

**C. OPERATIONS.**

1. The Business may only offer Remediation Services and Minor Reconstruction Services. You may not provide structural repair work, interior finishing, or electrical, mechanical, plumbing or heating services either through the Business or any other entity ("Reconstruction Services"). In the event that a customer of the Business requires Reconstruction Services, you must refer the customer to us, BELFOR Franchise Group, Inc., or BELFOR USA, Inc. (each a "Required Referral").

2. You must operate the Business for at least those months, hours and days that we specify in the Operations Manuals or otherwise in writing.

3. You must maintain the Business and its equipment and vehicles in working condition, and in accordance with all applicable requirements of law, and the Operations Manuals and to cause the same to be promptly replaced as they become warn, damaged, obsolete, out of style or mechanically impaired, so as to preserve, maintain and enhance the reputation and goodwill of the System and the Proprietary Marks.

4. In order to protect our goodwill, Proprietary Marks and the System, all Services shall be offered only by properly trained personnel strictly in accordance with our standards and processes, and the Operations Manuals, as they may be changed from time to time. You acknowledge that such standards and processes are integral to the System and failure to strictly adhere to such standards and processes shall be detrimental to the System and Proprietary Marks and shall constitute a default of this Agreement.

5. You shall ensure that the Business employs at all times a sufficient number of qualified, competent personnel. All of your employees shall dress conforming to our standards, shall present a neat and clean appearance (wearing our required uniforms) in conformance with our reasonable standards and shall render competent, efficient service to the customers of the Business. You shall immediately train and instruct their employees in accordance with the practices, procedures and methods contained in the Operations Manuals, as they may be amended from time to time, and shall continue such training and instruction as long as each employee is employed by the Business. The Operations Manuals shall set forth the practices, procedures and methods to be utilized by you. You agree to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the 1-800 WATER DAMAGE Business.

## D. INSURANCE.

Before commencing the 1-800 WATER DAMAGE Business, you promise to purchase and maintain in full force and effect throughout the term of this Agreement and at your expense, insurance protecting you, your employees, and us, our officers, and our employees, against loss, liability, fire, personal injury, death, property damages, or theft arising from, or occurring in connection with, the operation and promotion of the 1-800 WATER DAMAGE Business. You acknowledge and agree that (a) the insurance you will maintain reflects the minimum amounts of coverage we require, (b) these minimums are not meant to reflect the actual needs you may have, and (c) it is your responsibility to carefully evaluate if these minimums will adequately meet your needs.

All policies will be written by an insurance company(ies) that is/are licensed in the state in which you are doing business, and that has an A.M. Best rating of "A" or better. Currently, you are not obligated by the terms of this Agreement to purchase your insurance from any specific provider, although we reserve the right to specify the specific provider that you must use in the future.

Insurance policies will be written by an insurance company which is satisfactory to us and will be in accordance with the standards and specifications set forth in the Operations Manual or otherwise in writing, and will include, at a minimum (except as additional coverage and higher policy limits may reasonably be specified for all 1-800 WATER DAMAGE franchisees from time to time by us in the Operations Manual or otherwise in writing) the following:

Our current requirements are described below:

1. Commercial General Liability Insurance. You shall maintain insurance for "bodily injury," "property damage," and "personal and advertising injury" with no exclusion or limitation applying to the products/completed operations liability coverage. Limits shall be at least $2,000,000 general aggregate, $2,000,000 products and completed operations aggregate, $1,000,000 personal and advertising injury limit, and $1,000,000 per occurrence limit. Contractual liability coverage including the assumed personal injury endorsement shall be included to cover the indemnity provisions of this Agreement. The exclusion for employer's liability shall not apply to claims for covered contractually assumed liability claims. 1 800 WATER DAMAGE International, LLC and 1-800 WATER DAMAGE North America, LLC shall be named as an additional insured on

such policy on a primary and noncontributory basis with a Grantor of Franchise Form CG2029 or an insurer's comparable form.

2. Automobile Liability Insurance. You shall maintain insurance with a combined single limit, CSL, of $1,000,000 for bodily injury and property damage for all owned or leased vehicles and for hired and non-owned motor vehicles. Additionally, uninsured motorist and under-insured motorist coverage will be equal to the CSL.

3. Workers' Compensation and Employers' Liability. Statutorily required workers' compensation insurance and employer's liability insurance shall be maintained with limits of at least $500,000 by accident, $500,000 by disease and $500,000 policy limit; or the minimum limit required by your state, whichever is higher. Such policy shall contain a waiver of subrogation endorsement as to claims against 1 800 WATER DAMAGE International, LLC and 1 800 WATER DAMAGE North American, LLC. In "Monopolistic States", such as Ohio, North Dakota, Washington, Wyoming and West Virginia, "Stop Gap" coverage must be purchased separately or added to the CGL policy. "Stop Gap" in Ohio must not contain exclusion with the "substantially certain to occur" language.

4. Employee Dishonesty Insurance. You shall maintain employee dishonesty insurance with minimum limits of $50,000 per loss and such coverage shall also cover acts of stealing against third parties.

5. Umbrella Liability Insurance. You shall maintain a commercial umbrella liability insurance policy with a limit of at least $2,000,000 per occurrence and aggregate and shall list the commercial general liability, automobile liability and workers' compensation/employers' liability policies as scheduled underlying policies.

6. Other Insurance. You shall maintain compliance with any state, county, local, or other municipal insurance requirements and any other insurance policies we may require.

7. Pollution Insurance. A pollution insurance policy must be maintained with a limit of at least $1,000,000. Must include first-party coverage for contamination of insured property either by external or on-site sources. Must also include coverage for liability to third parties arising from contamination of air, water, or land due to the sudden and accidental release of hazardous materials from the insured site.

The insurance levels listed above are the minimum we require you to maintain for the 1-800 WATER DAMAGE Business. We may, periodically determine and modify the minimum insurance limits and require different or additional kinds of insurance to reflect changes in insurance standards, normal business practices, higher court awards and other relevant circumstance. To gain adequate protection, you should discuss with your insurance agent and financial advisor to determine if your personal situation requires you to maintain coverage in excess of the minimums that we require. If any lease or Customer contract requires an insurance policy amount to be higher than the amounts we have listed above, you must obtain the highest amount for such policy.

All general liability insurance policies will name us and our designated affiliates, employees, officers and directors as additional insureds, and will contain no provision which in

any way limits or reduces coverage for you if a claim is made by any one (1) or more of the Indemnified Parties, as defined in Section 14.C of this Agreement, and will extend to and provide indemnity for all obligations assumed by you and all items for which you are required to indemnify us, will be primary to and without right of contribution from any other insurance purchased by the Indemnified Parties, and will provide, by endorsement, that we receive at least 30 days' notice of any intent to cancel or materially alter any policy.

At least ten (10) days before attending Initial Training, commencing the operation of the 1-800 WATER DAMAGE Business, whenever a change is made to your policy, and before expiration of any insurance coverage, you promise to have your insurance provider send us a copy or certificate or other acceptable proof of such insurance. If you do not maintain the required insurance coverage, or do not furnish us with satisfactory evidence of insurance coverage and premium payments, we may obtain, at our sole option and in addition to our other rights and remedies under this Agreement, any required insurance coverage on your behalf. We are under no obligation whatsoever to obtain such insurance, but if we do so, you must fully cooperate with us in our efforts and must promptly sign all forms required to obtain or maintain the insurance. You must also allow any inspections of your 1-800 WATER DAMAGE Business required to obtain or maintain the insurance. Finally, you must pay us, on demand, any costs and premiums we incur in obtaining insurance on your behalf. Neither your obligation to maintain insurance coverage nor our maintenance of insurance on your behalf, will reduce or absolve you of any obligations of indemnification described in this Agreement. You must promptly report all material claims, or potential claims, against you, any Indemnified Party or us, to the insurer and to us.

You may not commence your 1-800 WATER DAMAGE Business until you have provided the certificates of insurance or other acceptable proof of all insurances. You may not reduce the policy limits, restrict coverage, cancel, or otherwise alter or amend any insurance policy without our written consent.

You must provide us with copies of any insurance claims or insurance cancellations within 24 hours. You have a 24 hour opportunity to cure any lapses in insurance coverage. No insurance policy must be subject to cancellation, termination, non-renewal or material modification, except upon at least 30 days prior written notice from the insurance carrier to us. We have the right to increase or otherwise modify the minimum insurance requirements upon 30 days prior written notice to you, and you shall comply with any such modification within the time specified in said notice.

## E. RECORDS, REPORTS AND FINANCIAL STATEMENTS.

We require you to use the WATER DAMAGE Software, or other Required Software as we designate, for maintaining Customer records for the 1-800 WATER DAMAGE Business. We have confidential access to your databases and related information from the WATER DAMAGE Software, which we use to compute the Royalty due on Gross Sales, and to make other evaluations and verifications. In addition, you promise to establish and maintain, at your expense, an accounting system. We currently require you to utilize QuickBooks Online Accounting Software that maintains our specified Chart of Accounts. You shall furnish to us, in the manner and format that we require:

1. at our request, a complete employee list;

2. on the 15th day of each month of the 1-800 WATER DAMAGE Business' operation, an un-audited income statement for the preceding calendar month, in a form satisfactory to us, and such additional reports as we may require;

3. within 90 days after the close of your fiscal year, a complete income statement and other financial statements in a form we may prescribe in our sole discretion;

4. within ten (10) days of our request, exact copies of any state, federal, or other income tax returns covering the operation of the 1-800 WATER DAMAGE Business, as well as the state, federal and other income tax returns from your existing cleaning and restoration business(es), which we may need to review to assure all Gross Sales have been accurately reported;

5. by November 1 of each year, financial projections and a marketing plan for the upcoming year in the form we may prescribe in our sole discretion; and

6. any other reports we may require in the future.

Your fiscal year must end on December 31. You promise to verify and sign each report and financial statement in the manner that we prescribe. We can disclose data derived from these reports without specifically identifying you or the Business (unless we have your written consent to do so). We can require you to have audited financial statements prepared on an annual basis if you fail to comply with any provision of this Agreement. Finally, you will allow us, as we deem appropriate, timely access to your copy of any computer systems that you maintain, to retrieve all information relating to the operation of the 1-800 WATER DAMAGE Business.

We currently require you to utilize the web-based QuickBooks Online Accounting Software and maintain our specified Chart of Accounts; we will have automatic password access to your financial reports on this system. You may not utilize any other accounting or reporting software that is not approved by us.

You shall maintain all records, reports, and financial statements for a period of five (5) years during and following the termination, transfer, or expiration of this Agreement.

## F. COMPLIANCE WITH LAWS.

You will, at your expense, secure and maintain in force all required licenses, permits, and certificates relating to the operation of the 1-800 WATER DAMAGE Business and shall operate the 1-800 WATER DAMAGE Business in full compliance with all applicable local, state and federal laws, rules and regulations. You must, at your expense, comply with all federal, state, and local laws and regulations that apply to Remediation Services and cleaning and restoration businesses in general. If your state or county licenses mold remediation, you must be licensed before commencing operation of the 1-800 WATER DAMAGE Business and maintain such licenses throughout the term of this Agreement and any Renewal Terms. In states or counties where mold remediation is not licensed by any governmental authority, you must satisfy to us that you possess the qualifications required to perform the services offered by 1-800 WATER DAMAGE Businesses. It is your responsibility to investigate the federal, state and local laws and regulations that pertain to mold remediation, cleaning and restoration businesses. You must

maintain your license(s) in good standing with the licensing authority for the entire term of this Agreement and all renewals.

You will notify us in writing within five (5) days of the commencement of any action, suit, or proceeding for the issuance of any order, writ, injunction, award or decree or any court, agency or other governmental instrumentality which may adversely affect the operation or financial condition of the 1-800 WATER DAMAGE Business.

## 8. INSPECTIONS AND AUDITS.

### A. OUR RIGHT TO INSPECT THE BUSINESS.

To determine whether you are complying with this Agreement and all System Standards, we have the right at any time during business hours to perform an on-site inspection of your business at your Office Site, and any other locations through which the 1-800 WATER DAMAGE Business is operated. During such inspection, we may: (i) participate in quality checks of home field services; (ii) interview employees; or (iii) review (a) your books and records, (b) your promotional materials and media advertising, (c) your personnel files and practices, and/or (d) any and all components of the 1-800 WATER DAMAGE Business.

You promise to cooperate fully with us in any inspection of your 1-800 WATER DAMAGE Business, and we promise to use our best efforts to not interfere with the operation of your 1-800 WATER DAMAGE Business.

### B. OUR RIGHT TO AUDIT.

We have the right at any time during business hours, and without prior notice to you, to inspect and audit, or cause to be inspected and audited, any and all financial statements, reports, income tax records, sales tax records, payroll records, software databases, and other records. You promise to cooperate fully with our representatives and independent accountants we hire to conduct any inspection or audit.

If any inspection or audit discloses an understatement of Gross Sales, we can debit your account, as provided in Sections 2.C and 2.H of this Agreement, for the Royalty and National Marketing Fund contributions which are due on the amount of the understatement, plus interest, at the rate of 18% per annum or the maximum rate permitted by applicable law, whichever is lesser, and all late fees, from the date originally due until the date of payment.

Furthermore, if we conduct an inspection or audit due to your failure to (a) furnish reports, supporting records, or other information as required, (b) furnish these items on a timely basis, or (c) record all Customer payments in the WATER DAMAGE Software within 48 hours of their receipt, or we discover that an understatement of Royalty Fee is greater than 3% for any period reviewed, you promise to reimburse us for the cost of the inspection and/or audit, including without limitation, the charges of attorneys and independent accountants, the travel, room and board expenses, and compensation of our employees. Further, if an understatement of the Royalty Fee is greater than 3%, you also promise to pay us an additional penalty fee equal to 10% of the total amount of the understated Gross Sales.

These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

## 9. TAXES AND ADVANCES.

### A. TAXES.

You promise to pay all taxes as required by local, state, or federal laws regarding the products, service, or equipment furnished or used in connection with the operation of the 1-800 WATER DAMAGE Business. You promise to promptly pay us, when due, the amount of all sales taxes, use taxes, personal property taxes, and similar taxes imposed upon, required to be collected, or paid by us, to your state and/or local government, on account of services or goods furnished by us to you through sale, lease, or otherwise, or on account of collection by us of the Initial Franchise Fee, the Initial Package Fee, Royalty Fees, or any other payments to us under this Agreement.

### B. ADVANCES.

You promise to promptly reimburse us for all amounts that we have paid, or have been obligated to pay, on your behalf for any unpaid tax liability, provided, however, that we are not obligated to pay these or any other payments on your behalf.

## 10. TRANSFER.

### A. BY US.

This Agreement is fully transferable by us and will inure to the benefit of any transferee or other legal successor to our interests herein.

### B. BY YOU.

You cannot transfer this Agreement, the 1-800 WATER DAMAGE Business, or any part of your ownership in it (including any voluntary, involuntary, direct or indirect assignment, sale, gift, or other disposition) without our prior written approval and subject to the conditions below. Any such assignment, transfer, or encumbrance without such approval, will constitute a breach of this Agreement. Any change of ownership requires our approval and must meet the conditions specified below, and the payment of the transfer fee will be due should the change of ownership be 33% or more in the aggregate. We will not, however, unreasonably withhold our approval provided that the conditions specified below are met, which we will determine in our sole discretion:

1. you are in full compliance with this Agreement or any other agreement between you and us, our affiliates, or our designated/approved suppliers and vendors, and you have paid all accrued monetary obligations to us, our affiliates, and our designated/approved suppliers and vendors;

2. the transferee has demonstrated sufficient business experience, aptitude, and financial resources to meet our then-current standards for new franchisees, which may include aptitude or assessment testing;

3. the transferee and its owners and affiliates are not engaged in a competitive business, unless they agree to operate all remediation services, cleaning and restoration businesses as a part of the 1-800 WATER DAMAGE System;

4. you provide us with written authorization to release to the transferee any and all information about the operation of the 1-800 WATER DAMAGE Business which we have collected;

5. the transferee must sign our then-current form of franchise agreement for a full term;

6. you pay us:

    a. our then-current transfer fee upon the transferee's execution of the new franchise agreement to defray expenses we incur in the transfer, including the costs of training the transferee (we will waive the transfer fee for transfers to your spouse or children);

    b. all Royalty Fees for completed jobs up through the date of closing, fees, amounts owed under any promissory notes with us, Late Payment Fees, Late Report Fees, NSF Fees, Interest Fees, and all other fees or amounts owed to us, plus interest; and

    c. all commissions, broker fees or other similar expenses if: (i) you list the 1-800 WATER DAMAGE Business with a broker, lead referral network or similar entity; or (ii) the transferee is referred to you or us by a broker, lead referral network or similar entity;

7. the transferee has successfully completed our Initial Training Program;

8. you, your principals, and the transferee (if we have a prior relationship with the transferee) have signed a general release, in a form satisfactory to us, of any and all claims against us and our shareholders, officers, directors, employees, and agents;

9. we have approved the material terms and conditions of the transfer and determined that the price and terms of payment will not adversely affect the transferee's operation of the 1-800 WATER DAMAGE Business;

10. the transferee upgrades the Business to conform to our then current specifications and design;

11. if you finance any part of the sale price of the transferred interest, you agree and will assure that all of the transferee's obligations under any promissory notes, agreements, or security interests that you have reserved in the 1-800 WATER DAMAGE Business, are subordinate to the transferee's obligation to pay Royalty Fees, Referral Fees, and other amounts due to us and otherwise to comply with this Agreement;

12. in the event of an approved transfer to a wholly owned corporation or limited liability company, we will require you to own and control at least 67% of the issued and outstanding capital stock or other ownership interest;

13. you must have attended Initial Training and your business must be open in order to transfer the 1-800 WATER DAMAGE Business;

14. any transfer does not impact any of your post-termination obligations, including, without limitation, such obligations set forth in Sections 6 or 13.

15. the transferee must obtain, within the time limits set by us, and maintain thereafter, all permits and licenses required for the operation of the 1-800 WATER DAMAGE Business;

16. to the extent required by the terms of any leases or other agreements, the lessors or other parties must have consented to the proposed transfer; and

17. the transfer must be made in compliance with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

We shall have 60 days from the date of the written notice to approve or disapprove in writing of your proposed assignment. You acknowledge that the proposed transferee shall be evaluated for approval by us based on the same criteria as is currently being used to assess new franchisees of us and that such proposed transferee shall be provided, if appropriate, with such disclosures as may be required by state or federal law. If we have not given you notice of our approval or disapproval within such period, the request for the transfer or assignment is deemed rejected.

## C. YOUR DEATH OR DISABILITY.

Upon your death or disability, your executor, administrator, conservator, guardian, or other personal representative must transfer your interest in this Agreement to a third party within a reasonable amount of time, but not to exceed one (1) year. During this time the 1-800 WATER DAMAGE Business must be operated in full compliance with this Agreement. The transfer will be subject to all of the terms and conditions applicable to transfers that are contained in this Section, with the exception that the transfer fee will be waived if the third party is your spouse or child.

In the event of your death or disability, and before a transfer of your interests in this Agreement, your spouse, child, or parent may, if this party otherwise would qualify as a transferee, operate the Business, provided that this person personally manages the business on a full time basis, successfully completes our Initial Training, and signs our then-current franchise agreement to govern the operation of the 1-800 WATER DAMAGE Business moving forward.

For purposes of this Section, disability is defined as a condition that materially impairs your ability to operate the 1-800 WATER DAMAGE Business in accordance with this Agreement.

## D. OUR RIGHT OF FIRST REFUSAL.

If you at any time determine to sell, assign, or transfer for consideration your interest in this Agreement, you must obtain a bona fide, signed written offer and earnest money (in the amount of 5% or more of the offer price) from a responsible and fully disclosed offeror, and

immediately submit to us a true and complete copy of the offer which includes details of the payment terms. To be a valid, bona fide offer, the proposed purchase price is to be denominated in a dollar amount.

We have the right, exercisable by written notice delivered to you within 30 days from the date of the delivery to us of both an exact copy of the offer and all other information we request, to purchase the interest for the same price, less the transfer fee, and on the same terms and conditions contained in the offer provided that:

1. We may substitute cash for any form of payment proposed in the offer;

2. Our credit will be deemed equal to the credit of any proposed purchaser;

3. We will have 30 days, after giving notice of our election to purchase, to prepare for and complete the closing; and

4. We are entitled to receive, and you must make, the same representations and warranties given to the proposed purchaser.

If we do not exercise our right of first refusal, you may complete the sale to the purchaser on the exact terms of the offer, subject to our approval of the transfer as provided in Section 10.B above. If the sale is not completed within 60 days after the expiration of the right of first refusal, or if there is a material change in the terms of the sale (which you agree promptly to communicate to us), we will have an additional right of first refusal during the 30-day period following either the expiration of the 60-day period or notice to us of the material change(s) in the terms of the sale, either on the terms originally offered or the modified terms, at our option.

**E. OWNERSHIP.**

1. The following provisions apply if you or any permitted successor is a partnership, Limited Liability Company ("LLC") or corporation:

   a. The articles of partnership, partnership agreement, articles of organization, articles of incorporation, by-laws and other organizational documents shall provide that the issuance and transfer of any interest in the legal entity is restricted by the terms of this Agreement. Copies of such documents and of resolutions of the legal entity's board of directors or managers authorizing its entry into this Agreement shall be furnished to us upon request.

   b All general partners, members and all direct and indirect holders of a 10% or greater equity interest shall, upon the legal entity's execution of this Agreement, execute an agreement personally guaranteeing to us the full payment and performance of the legal entity's obligations to us and undertaking to be bound, individually, jointly and severally, by all the terms of this Agreement including, without limitation, the restrictions on assignment contained herein. The personal guaranty shall be in the form attached hereto as Exhibit L or in such other form as we may from time to time prescribe.

c. The legal entity shall not use the name "1-800 WATER DAMAGE" or any other Mark, or any name deceptively similar thereto, except to reflect its franchise relationship with us. Neither the legal entity nor any of its owners may issue or sell, or offer to issue or sell, any securities of the legal entity or an affiliate of the legal entity, regardless of whether such sale or offer would be required to be registered pursuant to the provisions of the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction, without obtaining our prior written consent, which is in our sole discretion, and complying with all of our requirements and restrictions concerning use of information about us.

d. The legal entity shall furnish us, at the time of execution of this Agreement and upon all transfers subject to the provisions of this Section 10, a list of all stockholders, members, managers and partners having an interest in the legal entity, their respective percentage interests and the number of shares directly and indirectly owned or controlled by each.

e. The legal entity, if a corporation, shall maintain stop transfer instructions against the transfer on its records of any securities with voting rights subject to the restrictions of this Section and shall cause all certificates representing outstanding voting securities to be surrendered for reissuance and cause all certificates for voting securities in the future to be issued with this legend printed conspicuously upon the face of each certificate: "The transfer of this certificate and the shares it represents is subject to the terms and conditions of a certain Franchise Agreement with 1 800 WATER DAMAGE International, LLC. Reference is made to that Agreement and to certain restrictive provisions of the Articles and by-laws of this corporation."

f. The legal entity acknowledges and agrees that the restrictions on transfer imposed herein are reasonable and necessary to protect the System, the Marks, the Confidential Information, as well as the our high reputation and image, and are for the protection of us and all other 1-800 WATER DAMAGE franchisees.

## 11. EXPIRATION OF THIS AGREEMENT.

## A. YOUR RIGHTS UPON EXPIRATION OF THIS AGREEMENT.

Upon the expiration of this Agreement, provided that during its term you complied substantially with its provisions, including the timely payment of all fees and Royalty Fees, you may continue your Franchised Business for two (2) additional terms of ten (10) years each (each, a "Renewal Term" (as previously defined)).

We may refuse to offer you a Renewal Term if you:

1. are not, at the time, in substantial compliance with this Agreement, or any other ancillary agreement then in effect between you and us;

2. have received written notice by us three (3) or more times during the last 30 months of the Initial Term or any Renewal Terms for failure to comply with the terms of this Agreement and were in violation of your obligation(s), whether or not the failure is subsequently cured;

3. have failed on more than three (3) separate occasions during the last 24 months of the Initial Term or any Renewal Terms to make timely payment to us of all sums due to us; or

4. have failed on more than three (3) separate occasions during the last 24 months of the Initial Term or any Renewal Terms to service all Customers in a manner consistent with our System Standards and reputation of ethical and professional conduct.

**B. AWARD OF A RENEWAL AGREEMENT.**

You promise to give us written notice of your election to pursue a Renewal Term no earlier than nine (9) months, and no later than six (6) months, before the expiration of this Agreement. We promise to give you notice (referred to as "Our Notice"), not more than 45 days after we receive your notice, of our decision in accordance with Paragraph A of this Section:

1. to award you a renewal franchise agreement;

2. to award you a renewal franchise agreement on the condition that you correct any provisions of this Agreement with which you are not in compliance; or

3. not to award you a renewal franchise agreement based on our determination that you have not substantially complied with this Agreement during its term.

If applicable, Our Notice will state the actions you must take to correct operating deficiencies and a reasonable time period in which these deficiencies are to be corrected.

If we elect not to award you a renewal franchise agreement, Our Notice will describe the reasons for our decision. Your right to a renewal franchise agreement is subject to your continued compliance with all of the terms and conditions of this Agreement through the date of its expiration, in addition to your compliance with the obligations described in Our Notice.

**C. AGREEMENTS/RELEASES.**

If you satisfy all of the other conditions to the awarding of a Renewal Term, you promise to sign the then-current franchise agreement and any ancillary agreements for 1-800 WATER DAMAGE Businesses, which may include a different Royalty Fee; provided, however, in no event will the Territory for the Renewal Term franchise agreement be changed from that contained in this Agreement. You and we further promise to sign a mutual general release, in a form satisfactory to us, of any and all claims against either of us and our respective shareholders, officers, directors, employees, agents, successors, and assigns.

Notwithstanding any provision to the contrary, at our request, you will promise to upgrade and remodel the 1-800 WATER DAMAGE Business at your sole expense to conform to the then-current Operations Manual (the completion of such upgrades shall be a condition of you

receiving such Renewal Term). Further, you must submit proof to us that you have the right to operate the 1-800 WATER DAMAGE Business at the Office Site for the Renewal Term.

**D. RENEWAL TERM FEE.**

You promise to pay us a renewal fee of 10% of the then-current Initial Franchise Fee upon execution of your renewal franchise agreement.

**12. TERMINATION OF AGREEMENT.**

**A. AUTOMATIC TERMINATION WITHOUT NOTICE.**

This Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

1. If you make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the 1-800 WATER DAMAGE Business.

2. If proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for you or the 1-800 WATER DAMAGE Business without your consent, and the appointment is not vacated within 60 days.

3. You attempt to make an unauthorized transfer of this Agreement or the Franchised Business in violation of any of the transfer provisions contained in Section 10 of this Agreement.

**B. AUTOMATIC TERMINATION WITH NOTICE.**

We have the right to terminate this Agreement, immediately, and without the opportunity to cure, effective upon delivery of written notice to you, or any of the following:

1. Your Managing Owner and, if applicable, Designated General Manager, fail to attend or successfully complete the Initial Training within four (4) months of signing this Agreement and/or fulfill all the pre-training requirements, which include the payment of all monies due to us, and the completion of all the required tasks as designated on the 1-800 WATER DAMAGE owners' intranet website and in the Operations Manual;

2. You fail to commence operation of the 1-800 WATER DAMAGE Business within four (4) months of signing this Agreement and/or two (2) months following your successful completion of the Initial Training, whichever is later;

3. You have made or make any material misrepresentation or omission in purchasing the Franchise or operating the 1-800 WATER DAMAGE Business;

4. You receive from us three (3) or more notices to cure the same or similar defaults or violations of this Agreement, within any two (2)-year period of time, regardless of whether these defaults were cured after notice was sent to you;

5. You are or have been convicted by a trial court of, or plead no contest to a felony or any conviction rising to the equivalent of a felony and/or failure to disclose a prior felony conviction or conviction rising to the equivalent of a felony to us;

6. You understate your Royalty Fee by three percent (3%) or more, in any reported financial statement, on three (3) or more occasions, during any consecutive two (2)-year time frame during the term of this Agreement, regardless of whether or not you subsequently rectify the deficiency;

7. You engage in any dishonest or unethical conduct, which may adversely affect the reputation of the 1-800 WATER DAMAGE Business, or the general goodwill associated with the Marks;

8. You violate any provision regarding confidentiality or non-disclosure contained in Sections 6 and 13 of this Agreement;

9. You cease to continuously and actively operate the Business for five (5) consecutive days, unless caused by an act of God, or other circumstance beyond your control, as determined by us; or the business telephone is disconnected at any time and no new number is immediately reinstalled or reconnected; or your conduct is otherwise determined by us to constitute an abandonment of the Business;

10. You fail to acquire or continuously maintain the required minimum levels of insurance, fail to have us named as an additional insured, or fail to provide a current certificate of insurance to us as required in Section 7.D. of this Agreement. However, we will not exercise our right to terminate this Agreement if upon receipt of notice from us, you immediately cease operating the 1-800 WATER DAMAGE Business and obtain such insurance within ten (10) days after written notice is delivered to you prior to resuming operation;

11. You fail to attend the 1-800 WATER DAMAGE Annual Convention;

12. Your Managing Owner or, if applicable, your Designated General Manager, fail to attend, or send a representative in their place, to a minimum of one (1) training course or regional meeting per two (2) calendar years, provided that at least two (2) of the above named events have been offered during that time period;

13. You fail to employ and train a Service Technician within four (4) months of signing this Agreement;

14. Any other franchise agreement or other agreement you or your owner(s) or affiliates have with us, or any franchise agreement you or your owner(s) or

affiliates have with 1 800 WATER DAMAGE International, LLC is terminated for any reason;

15. You commit three (3) or more defaults of this Agreement, of any type, in any 12-month period;

16. If you or your principals materially breach any other agreement with us or any of our affiliates, or threaten any material breach of any such agreement, or any lease for the Office Site, and fail to cure such breach within any permitted period for cure;

17. If you or your principals materially violate any provision hereof pertaining to Marks or Confidential Information or misuse the Marks or Confidential Information;

18. If you violate any safety or sanitation law, ordinance or regulation or operate the 1-800 WATER DAMAGE Business in a manner that presents a health or safety hazard to customers, or the general public;

19. If you violate the in-term restrictive covenant contained in Section 6 or fail to refer a Required Referral to us, BELFOR Franchise Group, Inc., or BELFOR USA, Inc.;

20. If a levy of writ of attachment or execution or any other lien is placed against you or any of your principals or any of their assets which is not released or bonded against within 30 days;

21. If you or any of your principals become insolvent;

22. You order or purchase supplies, signs, furnishings, fixtures, equipment, vehicle(s) or inventory for the Business from an unapproved supplier;

23. You misuse or make unauthorized use of any 1-800 WATER DAMAGE Software that we may develop for use in connection with the System;

24. You fail to comply with the provisions of Section 15.S;

25. You take for your own personal use any assets or property of the 1-800 WATER DAMAGE Business, including employee taxes, FICA, insurance or benefits; or

26. If there are insufficient funds in your bank account to cover a check or EFT payment to us three (3) or more times within any 12-month period.

**C. TERMINATION IF NOT CURED WITHIN 15 DAYS.**

We have the right to terminate this Agreement if any of the following defaults remains uncured after your receipt of a default notice from us and expiration of a 15-day cure period:

1. You fail to make payment of any amounts due to us, or funds are not available in your account for debiting when they are due, or you do not record in the WATER DAMAGE Software funds paid to you for jobs completed within 48 hours of their receipt, or you default on any loan made to you by us or our preferred lender, if applicable, in connection with your 1-800 WATER DAMAGE Business;

2. You fail to have in your employ for a period of two (2) consecutive months (a) at least one (1) Service Technician, or (b) a Designated General Manager, if you are required to have one.

3. You fail, within 15 days after notification of non-compliance by federal, state or local government authorities to comply with any law or regulation applicable to the 1-800 WATER DAMAGE Business;

4. You fail to comply with any part or condition, warranty, or certification requirement in this Agreement, the 1-800 WATER DAMAGE owners' intranet website, Operations Manual and/or other 1-800 WATER DAMAGE confidential materials;

5. You fail to comply with modifications to System Standards on the 1-800 WATER DAMAGE owners' intranet website, or in the Operations Manual within the required time period;

6. You fail to make payments on the vehicle resulting in repossession and you do not have a vehicle that meets our standards to operate the Business;

7. You fail to receive our prior written approval and use products or materials that do not meet our System Standards and/or do not promptly discontinue use after written notice from us;

8. You fail to timely provide us with any report, statement, or return required by this Agreement;

9. You fail to service all Customers in a manner consistent with our System Standards and reputation and you fail to cure such inconsistency;

10. You advertise or solicit a customer or service location that is located outside the Territory without our prior written consent;

11. You fail to immediately endorse and deliver to us any payments due to us from any third party that is erroneously made to you;

12. If you fail to maintain the prescribed months, days or hours of operation at the 1-800 WATER DAMAGE Business;

13. If you fail, in our sole discretion, to personally supervise day-to-day operation of the 1-800 WATER DAMAGE Business or fail to employ a sufficient number of qualified, competent personnel as we require from time to time;

14. If you fail to maintain the strict quality controls reasonably required by this Agreement and/or the Operations Manual;

15. You conduct yourself in a manner that, although not criminal, reflects adversely on the System, the Marks, or the products offered through the System; or

16. You fail to procure or maintain any licenses, certifications, or permits necessary for the operation of your 1-800 WATER DAMAGE Business.

We also have the right to terminate this Agreement after providing notice and a 30 day cure period if you fail to perform or comply with any one or more of the terms or conditions of this Agreement or the Operations Manual not specifically contained in Section 12.A above; including, without limitation, any warranty, or certification of this Agreement, and any System Standard or other provision in the 1-800 WATER DAMAGE owners' intranet website or the Operations Manual.

In addition to our right to terminate this Agreement, and not in lieu of such right, or any other rights we may have against you, upon a failure to cure any default within the applicable time period (if any), we have the right, but not the obligation, to enter upon the 1-800 WATER DAMAGE Business premises and exercise complete authority with respect to the operation of the 1-800 WATER DAMAGE Business until such time as we determine, in our sole discretion that the default has been cured, and you are otherwise in compliance with this Agreement. In the event we exercise the rights described in this Section, you must pay us a reasonable management fee and reimburse us for all reasonable costs and overhead, if any, incurred in connection with our operation of your 1-800 WATER DAMAGE Business including, without limitation, costs of personnel for supervising and staffing the 1-800 WATER DAMAGE Business and their travel and lodging accommodations, plus a 20% service charge. This fee is in addition to the payment of the management fee and all other fees due under this Agreement during the time we exercise our rights under this Agreement. If we undertake to operate the 1-800 WATER DAMAGE Business pursuant to this Section, you agree to indemnify and hold us (and our representative(s) and employees) harmless from and against any fines, claims, suits or proceedings that may arise out of our operation of the 1-800 WATER DAMAGE Business.

Our delay in exercising or failing to exercise any right or remedy under this Agreement or our acceptance of any late or partial payment due hereunder will not constitute a waiver of any of our rights or remedies against you.

## 13. POST TERMINATION OBLIGATIONS.

### A. PAYMENT OF AMOUNTS OWED TO US.

You promise to pay to us, on the effective date of termination or expiration of this Agreement, or at any later date that the amounts due to us are determined:

1. all Royalty Fees, Referral Fees, promissory note balance(s), Late Report Fees, Late Payment Fees, NSF Fees, Interest Fees, or any other fees, amounts or interest owed to us; and

2. upon termination for any default, the actual and consequential damages, costs, and expenses (including reasonable attorneys' and experts' fees) incurred by us as a result of your default.

The obligation to pay said sums will create a lien in favor of us against any and all of the personal property, vehicles, furnishings, equipment, signs, fixtures, and inventory of the 1-800 WATER DAMAGE Business and/or against any moneys we hold or otherwise come to our possession.

Any transferee (or purchaser of all or substantially all of the assets of the 1-800 WATER DAMAGE Business) shall be liable for payment of these items if you do not timely pay them. Provided, however, the foregoing sentence will not release or discharge you from your obligations to pay us pursuant to this Section and/or to indemnify or reimburse the transferee or purchaser pursuant to the applicable purchase or transfer agreement.

**B. MARKS.**

Upon the termination or expiration of this Agreement, you promise to:

1. strictly comply with, observe, and abide by all of the post-termination provisions of this Agreement, including those as set forth in Sections 5, 6 and 13.D of this Agreement;

2. neither directly nor indirectly represent to the public that any other business you may then own or operate, is or was operated as, or was in any way connected to, the System;

3. not hold yourself out or advertise in any context that you are a present franchisee or were a former franchisee of ours;

4. immediately refrain from engaging in any business relationship with any contacts with Customers or former Customers of the Franchised Business, whether with respect to collection of accounts receivable, providing Services, or for any other purpose whatsoever;

5. assign any and all accounts receivable to us for collection, unless all Royalty Fees and other payment obligations to us are paid in full. In connection with this assignment, you appoint us as attorney-in-fact to engage in these collection activities and you specifically refrain from engaging in any of these collection activities. We promise to employ good faith efforts, including where appropriate in our sole and exclusive judgment the commencement of legal proceedings to collect the accounts receivable. We have no duty or obligation to you to accomplish the collection of such accounts receivable. We will remit to you any of these sums collected after first deducting all moneys owed to us and our costs of collection;

6. immediately cease operation under this Agreement and not operate or do business under any name or in any manner which might tend to give the general public the impression that you are operating a 1-800 WATER DAMAGE Business, or any confusingly similar business;

7. take the action required to cancel all DBAs or equivalent registrations relating to your use of any Mark;

8. deliver to us, within seven (7) days, all electronic and hard copies of Customer Information;

9. remove all signage from vehicles and store fronts and deliver to us, within five (5) days, the Operations Manual and all copies thereof, and all proprietary information, confidential material, Required Software (including the WATER DAMAGE Software), signs, sign-faces, marketing and advertising materials, forms, uniform patches, decals (or proof of their removal) and other materials containing any Mark or otherwise identifying or relating to a 1-800 WATER DAMAGE Business, and allow us, without liability to you or third parties, to remove all of these items from your vehicles and place of business;

10. notify the telephone company and all telephone directory publishers and Internet directory listings (including Google, Yahoo! and others) of the termination or expiration of your right to use any listing, telephone, telecopy, or other numbers and any telephone directory listings associated with any Mark, and authorize the transfer of these numbers and directory listings to us or, at our direction, instruct the telephone company to forward all calls made to your telephone number to numbers we specify for a period of 90 days. If you fail to do so, we can take whatever action is necessary, on your behalf and consistent with the telephone and other listing agreement attached to this Agreement as Exhibit D, to affect these events;

11. agree to cooperate with us to effectuate any change in telephone numbers or other transfers of our property to us, including the signing of any forms, authorizations or other documents necessary;

12. deliver to us, upon our request, an assignment of any real estate leases for property from which the 1-800 WATER DAMAGE Business was operated; and

13. deliver to us, within 30 days, evidence that is satisfactory to us of your compliance with each of the foregoing obligations.

## C. CONFIDENTIAL INFORMATION.

You promise that, upon termination or expiration of this Agreement, you must immediately cease to use any of our Confidential Information (including any computer software that we have provided or made available to you) in any business or otherwise, return to us all

copies of the Operations Manual and other confidential materials that we have loaned to you, and you shall not maintain any copies of any such materials, in whole or part.

## D. COVENANT NOT TO COMPETE.

For a period of 24 months from the time of expiration or termination of this Agreement, you and your owners and, if applicable, your Designated General Manager, shall not (a) engage as an owner, shareholder, partner, director, officer, employee, consultant, salesperson, representative, or agent or in any other capacity in any Remediation Services, cleaning and restoration services and/or the services provided by our affiliates, (b) employ or seek to employ any person who is at that time employed by us, our affiliates or any other 1-800 WATER DAMAGE franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat, (c) solicit business from Customers of your former 1-800 WATER DAMAGE Business or contact any of our suppliers or vendors for any competitive business purpose, or (d) divert or attempt to divert any business or Customer of the 1-800 WATER DAMAGE Business to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System or engage in any business relationship with any contacts with Customers or former Customers of the 1-800 WATER DAMAGE Business, whether with respect to collection of accounts receivable, or to provide them services, or for any other purpose whatsoever, within:

1. the Territory as defined in this Agreement;

2. the geographic area encompassed by the Territories of any 1-800 WATER DAMAGE franchisees, Company Stores, or any other 1-800 WATER DAMAGE business operator, as of the date of the termination or expiration of this Agreement; or

3. a geographic area that is contained in a circle having a radius of 100 miles outward from the outside boundary of the Territory as defined in this Agreement.

## E. CONTINUING OBLIGATIONS AND OTHER OBLIGATIONS.

All of our and your obligations that expressly or by their nature survive the expiration or termination of this Agreement, will continue in full force and effect subsequent to and notwithstanding its expiration or termination, until they are satisfied in full or by their nature expire.

If, within five (5) days after termination or expiration of this Agreement, you fail to remove all displays of the Marks, we may enter the 1-800 WATER DAMAGE Business to effect removal. In this event, you agree that you may not file any complaint or action against us for trespass or any other violation or claim, nor shall we be accountable or required to pay for any displays or materials. You agree that this Agreement shall constitute your complete consent to such entry set forth in this Section.

If, within 30 days after termination or expiration, you have not taken all steps necessary to amend or terminate any registration, telephone number, email address, domain name, URL, or filing of any business name or DBA or any other registration or filing containing the Marks or any names and marks which are identified or associated with the Marks and System, you hereby

irrevocably appoint us as your true and lawful attorney-in-fact for you, and in your name, place and stead and on your behalf, to take action as may be necessary to amend or terminate all registrations and filings, this appointment being coupled with an interest to enable us to protect the Marks and System. We may, at our discretion, choose to have your telephone numbers, domain names and/or URLs forwarded or directed to us.

You shall permit us to make final inspection of your financial records, books, and other accounting records within eighteen (18) months of the effective date of termination, expiration, or transfer.

Termination or expiration of this Agreement shall not affect, modify or discharge any claims, rights, causes of action or remedies which we may have against you, whether such claims or rights arise before or after termination or expiration, including, without limitation, our rights to receive or collect fees or other amounts payable by you under this Agreement, to enforce the provisions of this Agreement against you, to sue for damages, seek and obtain ex-parte or other injunctive relief, to pursue any other legal or equitable remedy for breach of this Agreement, or otherwise constitute a waiver of any of our other rights upon the occurrence of an event giving rise to our right to terminate. We shall not be obligated following any such termination, expiration or cancellation, to refund any amount previously paid by you under the terms of this Agreement.

You shall, for three (3) years following any termination or expiration of this Agreement, keep us advised of your current business and residence address and telephone numbers, as well as the business address and phone number of your employer and the employer(s) of any of your principal owners.

Upon expiration or termination, you shall allow us, our affiliates and our franchisees to solicit your employees for employment.

You shall not form, adopt or use in connection with, or in the name of, any subsequent business the terms or term "1-800 WATER DAMAGE" or any term confusingly similar to such term or any other term which may have the effect of creating confusion or question regarding his/her affiliation with the System or us.

## 14. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION.

### A. INDEPENDENT CONTRACTORS.

You acknowledge and agree that, under this Agreement; you are and will be an independent contractor of ours. You will not be deemed an employee of ours for any purpose, and no employee of yours will be deemed to be an employee of ours for any purpose, most particularly with respect to any mandated or other insurance coverage, tax, or contributions, or requirements pertaining to withholdings, levied or fixed by any city, state, or federal governmental agency. Nothing in this Agreement will be construed so as to create a partnership, joint venture, or agency. You do not have any power to obligate us for any expenses, liabilities, or other obligations, other than as is specifically provided for in this Agreement. We will not have the power to hire or fire your employees and, except as expressly provided in this Agreement, we may not control or have access to your funds or expenditures, or in any other way exercise dominion or control over the Business.

You promise to identify yourself conspicuously in all dealings with customers, suppliers, public officials, the 1-800 WATER DAMAGE Business' employees, and others, and in the

manner we prescribe, as the owner of the 1-800 WATER DAMAGE Business under a franchise agreement that we have awarded and to place notices of independent ownership on the forms, business vehicles, stationery, and advertising, and other materials we require you to use.

**B. NO LIABILITY FOR ACTS OF OTHER PARTY.**

Neither you nor we will make any express or implied agreements, warranties, guarantees, or representations or incur any debt in the name of or on behalf of the other party, or represent that the relationship between you and us is other than that of franchisor and franchisee. We do not assume any liability, and will not be deemed liable for any agreements, representations, or warranties made by you which are not expressly authorized under this Agreement, for any damages to any person or property which directly or indirectly arise from or relate to your operation of the 1-800 WATER DAMAGE Business authorized by this Agreement.

**C. INDEMNIFICATION.**

You promise to protect, defend, and indemnify us, and all of our past, present, and future shareholders, direct and indirect parent companies, subsidiaries, affiliates, officers, directors, employees, attorneys, and designees (the "Indemnified Parties"), and hold Indemnified Parties harmless from and against any and all costs and expenses, including attorneys' fees, court costs, losses, liabilities, damages, claims and demands of every kind or nature on account of any actual or alleged loss, injury, or damage to any person, firm, or corporation, or to any property arising out of, or in connection with, your operation of the Business.

Under no circumstances will we, or any other Indemnified Party, be required to seek recovery from any insurer or other third party, in order to maintain and recover fully a claim against you. You agree that a failure to pursue recovery against others will in no way reduce or alter the amounts we or another Indemnified Party may recover from you.

Neither this Agreement nor our course of conduct is intended, nor may anything in this Agreement (nor our course of conduct) be construed to state or imply that we are the employer of your employees and/or independent contractors, nor vice versa.

**D. NO LIABILITY FOR TECHNOLOGY FAILURE.**

We are not liable for any direct, incidental, or consequential damages, including but not limited to, lost profits, lost savings or consequential, punitive or incidental damages for any reason whatsoever, including but not limited to any cause arising out of or in any way connected to a technology related problem, such as high speed internet connection, electronic mail, software, website, computer, phone systems and other electronic equipment, or call center.

**15. ENFORCEMENT.**

**A. SEVERABILITY.**

Nothing contained in this Agreement will be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provision of this Agreement, the 1-800 WATER DAMAGE owners' intranet website, or the Operations Manual, and any present or future statute, law, ordinance, or regulation, contrary to which the parties have no legal right to contract, the latter will prevail, but if the provisions of this Agreement, or the Operations Manual thus affected, will be curtailed and limited only if necessary to bring them

within the requirements of the law. In the event that any part, article, paragraph, sentence, or clause of this Agreement, the 1-800 WATER DAMAGE owners' intranet website, or the Operations Manual, will be held to be indefinite, invalid, or otherwise unenforceable, the indefinite, invalid, or unenforceable provision will be deemed deleted, and the remaining part of this Agreement will continue in full force and effect.

If any covenant in this Agreement which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, prohibited business activity, and/or length of time, but would be enforceable by reducing any part or all of the covenant, you and we agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law is applicable to the validity of the covenant.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of termination, or refusal to renew, than this Agreement, the prior notice or other action required by such law or rule will be substituted for the notice requirements of this Agreement. Such modification to this Agreement will be effective only in such jurisdiction and this Agreement will otherwise be enforced as originally made and entered into in all other jurisdictions.

**B. WAIVER OF OBLIGATIONS.**

Either of us may, by written notice, unilaterally waive or reduce any obligation or restriction of the other party under this Agreement. The waiver or reduction may be revoked at any time, for any reason, on ten (10) days' written notice.

**C. FEES AND EXPENSES.**

If you are in breach or default of any monetary or non-monetary material obligation under this Agreement or any related agreement between you and us and/or our affiliates, and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of this Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

**D. YOU MAY NOT WITHHOLD PAYMENT TO US.**

You promise to not withhold payment of any amount due to us on the grounds of our alleged nonperformance or for any other reason.

**E. RIGHTS OF PARTIES ARE CUMULATIVE.**

Your and our rights are cumulative and no exercise or enforcement by either of us of any right or remedy in this Agreement will preclude the exercise or enforcement by that party of any other right or remedy to which it is entitled by law.

**F. DISPUTE RESOLUTION PROCEDURES.**

1. Internal Dispute Resolution. You must first bring any claim or dispute you have with us and our shareholders, officers, directors, agents and employees to our President, after providing notice as set forth in Section 15.F.4 below. You must

exhaust this internal dispute resolution procedure before you may bring your dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

2. Mediation. At our option, all claims or disputes between us, our shareholders, officers, directors, agents and employees and you, arising out of, or in any way relating to, this Agreement or any other agreement by and between you and us or our affiliates, or any of the parties' respective rights and obligations arising from such agreement, or the operation of the 1-800 WATER DAMAGE Business which are not first resolved through the internal dispute resolution procedure set forth in Section 15.F.1 above, must be submitted first to non-binding mediation in Ann Arbor, Michigan under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against us or our shareholders, officers, directors, agents and employees with respect to any such claim or dispute, you must submit a notice to us, which specifies, in detail, the precise nature and grounds of such claim or dispute. We will have a period of 30 days following receipt of such notice within which to notify you as to whether we or our affiliates elects to exercise our option to submit such claim or dispute to mediation. You may not commence any action against us, our shareholders, officers, directors, agents and employees or our affiliates with respect to any such claim or dispute in any court unless we fail to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated as the result of a written declaration of either: (i) the mediator(s) that further mediation efforts are not worthwhile; or (ii) us. We may specifically enforce our rights to mediation. Each party shall bear its own cost of mediation and you and we shall share mediation costs equally. This agreement to mediate shall survive any termination or expiration of this Agreement.

   a. We shall not be required to first attempt to mediate a controversy, dispute, or claim as set forth in this Section 15.F.2 if such controversy, dispute, or claim concerns an allegation that you have violated (or threaten to violate, or pose an imminent risk of violating):

      i. Any federally protected intellectual property rights in the Marks, the System, trade secrets, or Confidential Information;

      ii. Any claims pertaining to or arising out of any warranty issue;

      iii. Any of the restrictive covenants contained in this Agreement; or

      iv. Any claims arising out of or related to fraud or misrepresentation by you or your insolvency.

3. Selection of Venue. Nothing contained in this Agreement shall prevent us from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief

available to safeguard and protect our interests. The parties expressly agree to the exclusive jurisdiction and venue of any court of general jurisdiction in Washtenaw County, Michigan or the United States District Court for the Eastern District of Michigan. You acknowledge that this Agreement has been entered into in the State of Michigan, and that you are to receive valuable and continuing services emanating from our headquarters in Ann Arbor, Michigan, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, you hereby irrevocably consent to the personal jurisdiction of the state and federal courts of the State of Michigan as set forth above and waive any objection you may have to either the jurisdiction or venue in such court. In the event that you file an action in any forum or jurisdiction in violation of this Section 15.F.3, you shall pay our costs and fees, including our reasonable attorneys' fees, in connection with any efforts to order the dispute to the proper forum or jurisdiction.

4. Prior Notice of Claims. As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, you must notify us within 30 days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

5. Third Party Beneficiaries. Our officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in this Section 15.F, each having authority to specifically enforce the right to mediate/litigate claims asserted against such person(s) by you.

## G. INJUNCTIVE RELIEF.

Nothing in this Agreement shall prevent us from seeking to obtain injunctive relief, without posting a bond, against threatened conduct that will cause us loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions. If injunctive relief is granted, your only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, you expressly waive all claims for damages you incur as a result of the wrongful issuance.

## H. CHOICE OF LAW.

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Michigan, and any dispute between the parties shall be governed by and determined in accordance with the substantive laws of the State of Michigan, which laws shall prevail in the event of any conflict of law.

## I. WAIVER OF PUNITIVE DAMAGES, JURY TRIAL AND CLASS ACTIONS.

You hereby waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against us arising out of any cause whatsoever (whether such cause be

based in contract, negligence, strict liability, other tort or otherwise) and agree that in the event of a dispute, that your recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER WILL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR YOUR PURCHASE FROM US OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES. THE PARTIES AGREE THAT ALL PROCEEDINGS ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR THE SALE OF THE 1-800 WATER DAMAGE BUSINESS, WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE BASIS, AND THAT ANY PROCEEDING BETWEEN YOU, YOUR OWNERS AND US OR OUR AFFILIATES/OFFICERS/EMPLOYEES MAY NOT BE CONSOLIDATED WITH ANY OTHER PROCEEDING BETWEEN US AND ANY OTHER THIRD PARTY.

## J. BINDING EFFECT.

This Agreement is binding upon us and you and will inure to the benefit of the parties identified in the Agreement and their respective executors, administrators, heirs, assigns, and successors in interest and may not be modified, except by a written agreement signed by you and us.

## K. LIMITATIONS OF CLAIMS.

Except for claims arising from your non-payment or underpayment of amounts you owe us under this Agreement, any and all claims arising out of or relating to this Agreement or our relationship with you will be barred unless a judicial proceeding is commenced within one (1) year from the date on which the party asserting the claim knew or should have known of the facts giving rise to the claim. You hereby waive the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by us, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

## L. CONSTRUCTION AND INTEGRATION.

This Agreement and all exhibits to this Agreement constitute the entire agreement between the parties and supersede any and all prior negotiations, understandings, representations or inducements, and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you. You acknowledge that you are entering into this Agreement as a result of your own independent investigation of our 1-800 WATER DAMAGE Business and not as a result of any representations about us made by our shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in

this Agreement, or in any disclosure document, prospectus, or other similar document required or permitted to be given to you pursuant to applicable law.

You agree that no modifications of this Agreement (except those specifically authorized herein) shall be effective except those in writing and signed by both parties. You acknowledge that you have not received any express or implied representations or warranties regarding the sales, earnings, income, profits, gross revenues, business or financial success, value of the franchise, provided by us or our representatives or any other matters pertaining to the franchise from us or any of our officers, employees or agents that were not contained in this Agreement or the Franchise Disclosure Document received by you (hereinafter "Representations"). You further acknowledge that if you had received any such Representations, you would not have executed this Agreement, and you would have: (a) promptly notified us in writing of the person or persons making such Representations; and (b) provided to us a specific written statement detailing the Representations made. You acknowledge that we justifiably have relied on your representations made before the execution of this Agreement. Nothing in this Agreement is intended, nor is deemed, to confer any rights or remedies upon any person or legal entity not a party to this Agreement.

Except where this Agreement expressly obligates us reasonably to approve or not unreasonably to withhold our approval of any of your actions or requests, we have the absolute right, in our sole discretion, to refuse any request you make or to withhold our approval of any of your proposed initiated or effected actions that require our approval.

The headings of the sections and paragraphs in this Agreement are for convenience only and do not define, limit, or construe the contents of such sections or paragraphs.

References in this Agreement to "we," "us," and "our," with respect to all of our rights and all of your obligations to us under this Agreement, will be deemed to include any of our affiliates with whom you deal. The term "affiliate," as used in this Agreement with respect to you or us, means any person or entity directly or indirectly owned or controlled by, under common control with, or owning or controlling you or us. For purposes of this definition, "control" means the power to direct or cause the direction of management and policies.

If two (2) or more persons are the franchisee under this Agreement, their obligation and liability to us will be joint and several.

This Agreement may be signed in multiple copies, each of which will be deemed an original.

## M. COMPLIANCE WITH OTHER LAWS.

You must comply with all national, state, and local laws and regulations that apply. You are solely responsible for investigating and complying with these laws.

## N. WAIVERS.

We will not be deemed to have waived our right to demand exact compliance with any of the terms of this Agreement, even if at any time: (a) we do not exercise a right or power available to us under this Agreement; (b) we do not insist on your strict compliance with the terms of this Agreement; (c) there develops a custom or practice which is at variance with the terms of this Agreement; or (d) we do not demand payments which are otherwise due to us under this

Agreement. Similarly, our waiver of any particular breach or series of breaches under this Agreement or of any similar term in any other agreement between you and us or between us and any other franchise owner, will not affect our rights with respect to any later breach by you or anyone else.

## O. EFFECTIVE DATE AND LOCATION OF AGREEMENT.

This Agreement shall not be effective until accepted by us as evidenced by dating and signing by an officer of us and the place of execution of this Agreement shall be the State of Michigan.

## P. DAYS.

Unless otherwise specifically stated in this Agreement, the term "days" shall refer to calendar days.

## Q. ADDITIONAL DOCUMENTATION.

You must from time to time, subsequent to the date first set forth above, at our request and without further consideration, execute and deliver such other documentation or agreement and take such other action as we reasonably may require in order to effectuate the transactions contemplated herein. In the event that you fail to comply with the provisions of this Section, you hereby appoint us as your attorney-in-fact to execute any and all documents on your behalf that are reasonably necessary to effectuate the transactions contemplated herein.

## R. FORCE MAJEURE.

Neither you nor us or our affiliates will be liable for loss or damage or deemed to be in breach of this Agreement or any related agreement if that party's failure to perform its obligations is not the fault nor within the reasonable control of that person due to perform but results from, without limitation, fire, flood, natural disasters, acts of God, governmental acts or orders, or civil disorders. Any delay resulting from any such cause will extend the time of performance for the period of such delay or for such other reasonable period of time as the parties agree in writing or will excuse performance, in whole or in part, as we deem reasonable.

## S. ANTI-TERRORIST ACTIVITIES.

You certify that neither you, nor your owners, principals, employees or anyone associated with you are listed in the Annex to Executive Order 13224 (the "Annex"). You agree not to hire or have any dealings with a person listed in the Annex. You certify that you have no knowledge or information that, if generally known, would result in you, your owners, principals, employees, or anyone associated with you being listed in the Annex. You agree to comply with and/or assist us to the fullest extent possible in our efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, you certify, represent, and warrant that none of your property or interests are subject to being "blocked" under any of the Anti-Terrorism Laws and that you and your owners or principals are not otherwise in violation of any of the Anti-Terrorism Laws. You are solely responsible for ascertaining what actions must be taken by you to comply with all such Anti-Terrorism Laws, and you specifically

acknowledge and agree that your indemnification responsibilities as provided in Section 14.C of this Agreement pertain to your obligations under this Section. Any misrepresentation by you under this Section or any violation of the Anti-Terrorism Laws by you, your owners, principals or employees will constitute grounds for immediate termination, upon notice, of this Agreement and any other agreement you have entered into with us or one (1) of our affiliates in accordance with the terms of Section 12 of this Agreement. As used herein, "Anti-Terrorism Laws" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies lists and any other requirements of any Governmental Authority (including without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

## T. OUT OF STOCK AND DISCONTINUED.

We are not liable to you for any loss or damage, or deemed to be in breach of this Agreement, if we cannot deliver, or cause to be delivered, or if our designated sources or approved suppliers cannot deliver, all of your orders for ancillary goods, merchandise, equipment, supplies, etc., where such things are out-of-stock or discontinued.

## U. PERSONAL GUARANTY.

Owner will ensure that each Owner (if Franchisee is an entity) and each Owner's spouse will sign and comply with the Guaranty and Assumption of Franchisee's Obligations attached as Exhibit L hereto, or as we, in our sole discretion, otherwise prescribes. Owner(s) must provide us with a copy of each executed agreement.

## 16. NOTICES AND PAYMENTS.

Any notice, report, payment, or other communication that is required to be delivered by the provisions of this Agreement, will be in writing and will be deemed to be delivered:

1. at the time of hand delivery;

2. at the time delivered via computer transmission (electronically verified and absent a notice of non-delivery) and, in the case of Royalty Fee and other due fees, at the time we actually debit your account;

3. one (1) business day after transmission by telecopy, facsimile, or other electronic system;

4. one (1) business day after being placed in the hands of a commercial courier service for next business day delivery; or

5. five (5) business days after placement in the United States mail by registered or certified mail, return receipt requested, postage prepaid.

All communications are to be addressed to the party to be notified at its most current principal business address. Both you and we agree to immediately notify the other of any change in address. Any required payment or report that we do not actually receive during regular business hours on the date due will be deemed delinquent.

**17. YOUR AFFIRMATIONS.**

In awarding this 1-800 WATER DAMAGE Business, we are relying upon your statements, as affirmed by your initials to the left of each statement, that:

___ ___The Managing Owner or, if applicable, the Designated General Manager, shall devote his/her full-time best efforts to the development and management of your Business. At least one (1) Managing Owner or Designated General Manager will operate the 1-800 WATER DAMAGE Business on a full-time basis.

___ ___We have not made, nor have you relied on, any representation as to the past or future sales, volume or potential profitability, earnings or income of the 1-800 WATER DAMAGE Business, or any other 1-800 WATER DAMAGE Business, other than the information provided in our franchise disclosure document.

___ ___You have had the opportunity, and have been encouraged by us, to independently investigate and analyze both the 1-800 WATER DAMAGE franchise opportunity and the terms and provisions of this Agreement by contacting any and all of our franchise owners and by utilizing the services of attorneys, accountants, or other advisors as you deem to be necessary.

___ ___You are not relying on any representation or statement that we have made, regarding the anticipated income, earnings and growth of 1-800 WATER DAMAGE, the System, or the viability of the 1-800 WATER DAMAGE franchise opportunity.

___ ___Like any other business, the nature of the business conducted by 1-800 WATER DAMAGE Businesses may, and probably will, evolve over time.

___ ___Your abilities and efforts are vital to the success of the 1-800 WATER DAMAGE Business.

___ ___Continually securing new Customers is necessary to the 1-800 WATER DAMAGE Business and requires you to make consistent and repeated marketing and advertising efforts through a variety of mediums.

___ ___We have certain rights reserved to us to own and operate 1-800 WATER DAMAGE Businesses, to franchise or franchise others to operate 1-800 WATER DAMAGE Businesses, and to otherwise use the System, Marks, know-how, techniques, and procedures, including (without limitation) those expressly set forth in of this Agreement.

___ ___We may sell our assets, Marks, or the System, outright to a third party; may go public; may engage in a private placement of some or all of our securities; may merge, acquire other corporations; may undertake a re-financing, re-capitalization, leverage buyout or other economic or financial restructuring; and with regard to any or all of the above sales, assignments, and dispositions, you expressly and agree to provide reasonable closing certificates and other documentation as reasonably requested by us to conclude the transaction, and specifically waive any claims, demands, or damages arising from or related to the loss of said Marks (or any

variations of them) and/or the loss of association with or identification of 1-800 WATER DAMAGE International, LLC, as the franchisor of this Agreement.

___ ___The covenants not to compete set forth in this Agreement are fair and reasonable, and will not impose any undue hardship on you, since you have other considerable skills, experience, and education which will afford you the opportunity to derive income from other endeavors.

___ ___All information that you have set forth in any and all applications, financial statements, and submissions to us is true, complete, and accurate in all respects, and you expressly acknowledge that we are relying upon the truthfulness, completeness, and accuracy of this information.

**18. REPRESENTATIONS.**

NO SALESPERSON, REPRESENTATIVE OR OTHER PERSON HAS THE AUTHORITY TO BIND OR OBLIGATE US EXCEPT OUR AUTHORIZED OFFICER BY A WRITTEN DOCUMENT. YOU ACKNOWLEDGE THAT NO REPRESENTATIONS, PROMISES, INDUCEMENTS, GUARANTEES OR WARRANTIES OF ANY KIND WERE MADE BY US OR ON OUR BEHALF THAT HAVE LED YOU TO ENTER INTO THIS AGREEMENT. YOU UNDERSTAND THAT WHETHER YOU SUCCEED AS A FRANCHISEE IS DEPENDENT UPON YOUR EFFORTS, BUSINESS JUDGMENTS, THE PERFORMANCE OF YOUR EMPLOYEES, MARKET CONDITIONS AND VARIABLE FACTORS BEYOND OUR CONTROL OR INFLUENCE. YOU FURTHER UNDERSTAND THAT SOME FRANCHISEES ARE MORE OR LESS SUCCESSFUL THAN OTHER FRANCHISEES AND THAT WE HAVE MADE NO REPRESENTATION THAT YOU WILL DO AS WELL AS ANY OTHER FRANCHISEE.

THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THIS AGREEMENT, WITH ALL BLANKS COMPLETED AND WITH ANY AMENDMENTS AND EXHIBITS, AT LEAST SEVEN (7) CALENDAR DAYS PRIOR TO EXECUTION OF THIS AGREEMENT. IN ADDITION, THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF OUR FRANCHISE DISCLOSURE DOCUMENT AT LEAST 14 CALENDAR DAYS PRIOR TO THE EXECUTION OF THIS AGREEMENT OR YOUR PAYMENT OF ANY MONIES TO US, REFUNDABLE OR OTHERWISE.

YOU ACKNOWLEDGE THAT WE HAVE RECOMMENDED, AND THAT YOU HAVE HAD THE OPPORTUNITY TO OBTAIN, REVIEW THIS AGREEMENT AND OUR FRANCHISE DISCLOSURE DOCUMENT BY YOUR LAWYER, ACCOUNTANT OR OTHER BUSINESS ADVISOR PRIOR TO EXECUTION HEREOF.

EACH OF THE UNDERSIGNED PARTIES WARRANTS THAT IT HAS THE FULL AUTHORITY TO SIGN AND EXECUTE THIS AGREEMENT. IF YOU ARE A PARTNERSHIP, CORPORATION, OR LIMITED LIABILITY COMPANY, THE PERSON EXECUTING THIS AGREEMENT ON BEHALF OF SUCH PARTNERSHIP, CORPORATION, OR LIMITED LIABILITY COMPANY WARRANTS TO US, BOTH INDIVIDUALLY AND IN HIS CAPACITY AS PARTNER, OFFICER, OR MANAGER/MEMBER THAT ALL OF THE PARTNERS OF THE PARTNERSHIP, ALL OF THE SHAREHOLDERS OF THE CORPORATION, OR ALL OF THE

MANAGERS/MEMBERS OF THE LIMITED LIABILITY COMPANY, AS APPLICABLE, HAVE READ AND APPROVED THIS AGREEMENT, INCLUDING ANY RESTRICTIONS WHICH THIS AGREEMENT PLACES UPON RIGHTS TO TRANSFER THEIR INTEREST IN THE PARTNERSHIP, CORPORATION, OR LIMITED LIABILITY COMPANY.

**IN WITNESS WHEREOF**, the parties hereto have signed and delivered this Agreement on the date stated on the first page hereof.

**FRANCHISOR**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

**FRANCHISEE**

**[FRANCHISEE ENTITY/NAME]**

By: _____

Name: _____

Title: _____

**OWNERS**

_____
[NAME], Individually

_____
[NAME], Individually

## EXHIBIT A
## TO THE FRANCHISE AGREEMENT

## TERRITORY

The "Territory" referred to in Section 1.D of the Franchise Agreement will be defined by the following zip codes, as located on the attached map,:

## TERRITORY

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |

This is to confirm your acknowledgement and understanding that zip codes and/or their boundaries change periodically, and in the event of a future change you may continue to market to an existing customer, who is now outside the Territory as a result of a zip code change. Provided, it will be your responsibility to clearly demonstrate that the customer was located in the Territory, when they first became a customer.

In the event a new zip code is created entirely within your existing geographic Territory, it will become a part of the Territory, and you may market in it. If a new zip code is created along the boundary of the Territory, if at least one-third of the new zip code area is within the Territory, as indicated on the attached map, then you can market to the new zip code, with the understanding an adjoining 1-800 WATER DAMAGE owner, who also has one-third of the new zip code in their previous Territory, may also be able to market in this new zip code.

The "Managing Owner" referred to in Section 1.C of the Franchise Agreement will be the following person:

«Managing Owner»

The "Designated General Manager" referred to in Section 1.C of the Franchise Agreement will be the following person (if there is no Designated General Manager, please write "none"):

«General Manager»

**1 800 WATER DAMAGE**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

Date: _____

**FRANCHISEE**

**[FRANCHISEE ENTITY/NAME]**

By: _____

Name: _____

Title: _____

Date: _____


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**EXHIBIT B**
**TO THE FRANCHISE AGREEMENT**

**INITIAL PACKAGE**

| **Item:** |
|---|
| Branded Print and Marketing Material |
| Small Tools Package |
| Equipment |
| Safety Package |
| Consumables |
| 1-800 WATER DAMAGE Apparel |
| Convention Allowance |

A full listing of the equipment included in the packages will be provided in your Operations Manual.


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**EXHIBIT C**
**TO THE FRANCHISE AGREEMENT**

## FRANCHISE MANAGEMENT SOFTWARE LICENSE AGREEMENT

1 800 WATER DAMAGE International, LLC, a Delaware Limited Liability Company having its principal office at 731 Fairfield Court, Ann Arbor, Michigan 48108 ("1-800 WATER DAMAGE"), grants a renewable license ("License") to _____ with offices at _____ ("Licensee"), upon the terms included in this Agreement and subject to all the terms of a Franchise Agreement between 1-800 WATER DAMAGE and Licensee signed concurrently with this Agreement.

Licensee shall, during the term of this Agreement and upon the start of their 1-800 WATER DAMAGE franchised business, pay 1-800 WATER DAMAGE a monthly usage/support/upgrade fee. The amount of this fee may change periodically at the discretion of 1-800 WATER DAMAGE. Failure to make any payment shall result in the immediate termination of this License.

### TERMS AND CONDITIONS

1. **License Grant:** 1-800 WATER DAMAGE grants to Licensee a renewable License to use the 1-800 WATER DAMAGE Franchise Management Software System ("Product" or "WATER DAMAGE Software"), and all subsequent upgrades, on Licensee's computer. This License does not extend to other parties, even if they use the same computer. 1-800 WATER DAMAGE reserves the right to issue new modules, which may be separately licensed.

2. **Title:** Title to the Product shall remain with 1-800 WATER DAMAGE.

3. **Term:** This License is a quarterly license. It shall automatically renew each quarter and shall remain in effect throughout the term of the Franchise Agreement between 1-800 WATER DAMAGE and Licensee.

4. **Copies and Listings:** The Licensee shall not copy or reverse-engineer the Product in whole or in part, nor shall it permit other parties to do so.

5. **Protection of Product:** Licensee agrees not to make available to any party the Product or any of its parts. Licensee agrees to take appropriate action with its employees and any other parties to obtain assurances of non-disclosure consistent with this Agreement.

   Licensee recognizes that the Product is 1-800 WATER DAMAGE copyrighted property, represents a large investment of human and financial resources by 1-800 WATER DAMAGE, is a trade secret of 1-800 WATER DAMAGE, and is confidential information. Licensee agrees to keep the Product, and all related materials, confidential. Licensee will use its best efforts, including any reasonable security precautions as 1-800 WATER DAMAGE may request, to insure that the proprietary rights of 1-800 WATER DAMAGE are preserved to the fullest extent possible under the law. In addition to the right to terminate this Agreement, 1-800 WATER DAMAGE shall be entitled to seek appropriate injunctive relief in the event of any violation of the confidentiality of its copyrighted materials, and to bring an action at law where appropriate.

6. **Assignment and Sub-Licensing:** This License shall not be assigned or sub-licensed by Licensee, except with the prior, specific written consent of 1-800 WATER DAMAGE.


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7. **Warranty:** 1-800 WATER DAMAGE warrants that the Product, when delivered to Licensee, shall be free from material defects and shall conform to the program documentation. Licensee acknowledges that the Product is of a complexity that it may have certain defects when delivered. Licensee agrees that the sole liability of 1-800 WATER DAMAGE shall be to correct program errors in the Product, and not to correct problems due to the hardware upon which the Product is operated, interaction with other non-standard software, or incorrect handling or employment of the Product by Licensee. All warranties extend only to the Licensee.

THE ABOVE WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, STATUTORY OR OTHERWISE, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

8. **Limitation of Liability; Limitation of Actions:** 1-800 WATER DAMAGE SHALL NOT BE LIABLE FOR ANY INDIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, INCLUDING, BUT NOT LIMITED TO LOST PROFITS FROM ANY CAUSE ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE PRODUCT, NOR FOR ANY CLAIM OR DEMAND BY OR AGAINST LICENSEE. No action arising out of the transactions under this Agreement may be brought by either party more than one (1) year after the cause of action has occurred. Additionally, any cause of action for improper use, transfer, sub-licensing, or disclosure of the Product or materials may be brought within one (1) year of the date when 1-800 WATER DAMAGE shall have actual knowledge thereof. In the event 1-800 WATER DAMAGE must institute suit to enforce the terms and conditions of this Agreement, Licensee shall pay reasonable attorneys' fees and costs incurred by 1-800 WATER DAMAGE.

9. **Termination by 1-800 WATER DAMAGE:** The parties agree that any of the following events shall be considered to be a default under the terms of this Agreement, shall entitle 1-800 WATER DAMAGE to terminate this Agreement, and shall authorize 1-800 WATER DAMAGE to immediately terminate Licensee's access to the Product:

   a. Failure to maintain the Franchise Agreement between 1-800 WATER DAMAGE and Licensee in good standing;

   b. Failure to make payments of any kind to 1-800 WATER DAMAGE in full or on time;

   c. Failure to comply with any covenants or agreements herein;

   d. Licensee's disposing of, licensing, or transferring the Product, other than strictly in accordance with the terms of this Agreement.

   e. Upon termination of this Agreement, Licensee shall immediately deliver to 1-800 WATER DAMAGE all Products, and copies of Products, and related materials in its possession, and shall not maintain any copies of any of these materials, in whole or part, for itself.

10. **Miscellaneous:** In the event that any part of this Agreement shall be found to be unenforceable, these findings shall not invalidate the other parts of this Agreement. This Agreement expresses the entire understanding of the parties with respect to the subject matter herein, all promises, undertakings, representations, agreements and arrangements with reference to the subject matter of this Agreement. This Agreement shall be construed in accordance with the laws of the State of Michigan, and shall be deemed to have been made in the State of Michigan. This Agreement


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may not be modified, except by a written agreement signed by 1-800 WATER DAMAGE and Licensee.

**1-800 WATER DAMAGE**

**1-800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

Date: _____

**LICENSEE**
**[FRANCHISEE ENTITY/NAME]**

By: _____

Name: _____

Title: _____

Date: _____


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**EXHIBIT D**
**TO THE FRANCHISE AGREEMENT**

**TELEPHONE AND OTHER LISTING AGREEMENT**

In accordance with the terms of the Franchise Agreement between 1 800 WATER DAMAGE INTERNATIONAL, LLC ("FRANCHISOR"), a Delaware Limited Liability Company, and _____ ("FRANCHISEE") signed concurrently with this Agreement, under which FRANCHISOR granted FRANCHISEE the right to own and operate a franchised business (the "Franchised Business"), FRANCHISEE, for value received, hereby agrees with FRANCHISOR that all of FRANCHISEE'S right, title, and interest in and to those certain telephone numbers and regular, classified, or other telephone directory listings, domain names, internet directory listings or rights and/or URLs (collectively, the "Telephone Numbers and Listings") associated with FRANCHISOR'S trade and service marks and used periodically in connection with the operation of the Franchised Business, shall be promptly transferred to the FRANCHISOR, upon termination or expiration of the Franchise Agreement.

Upon termination or expiration of the Franchise Agreement (without renewal or extension), it is agreed and acknowledged that as between FRANCHISOR and FRANCHISEE, title or interest in the Telephone Numbers and Listings, directly or indirectly, will be assigned to the FRANCHISOR. Further, the FRANCHISEE will not seek to utilize, directly or indirectly, call forwarding messages of any nature, or otherwise seek to take advantage of the goodwill and/or marketing advantage associated with the Telephone Numbers and Listings. It is further agreed and understood, FRANCHISEE will remain liable to the telephone company or other vendor for all past due fees owing to the telephone company or other vendor on or before the effective date of the cancellation hereunder.

FRANCHISEE appoints FRANCHISOR as FRANCHISEE'S true and lawful attorney-in-fact to direct the Telephone Company or other vendor to assign the Telephone Number and Listings, and sign any necessary documents and take any actions as may be necessary to effectuate the assumption.

The parties further agree that if the telephone company or other vendor requires that the parties sign any change forms or other documentation at the time of transfer, FRANCHISOR'S execution of the forms or documentation will effectuate FRANCHISEE'S consent and agreement to the change. The parties finally agree they will perform these acts and sign and deliver the documents as may be necessary to assist in or accomplish the transfer described herein, upon termination or expiration of the Franchise Agreement.

| | |
|---|---|
| **1-800 WATER DAMAGE** | **FRANCHISEE** |
| **1-800 WATER DAMAGE INT'L, LLC** | **[FRANCHISEE ENTITY/NAME]** |
| By: _____ | By: _____ |
| Name: _____ | Name: _____ |
| Title: _____ | Title: _____ |
| Date: _____ | Date: _____ |


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**EXHIBIT E**
**TO THE FRANCHISE AGREEMENT**

**PROMISSORY NOTE**

**$10,000**

1. FOR VALUE RECEIVED, _____ and _____ (collectively, the "Undersigned") promises to pay to the order of **1 800 WATER DAMAGE INTERNATIONAL, LLC,** a Delaware Limited Liability Company, at 731 Fairfield Court, Ann Arbor, Michigan 48108 (the "Holder"), the principal sum of $10,000 together with interest at a rate of an annual percentage rate of 8%. The principal and interest shall be paid in equal monthly installments as stated in the payment schedule attached to this Promissory Note as Exhibit "1", which is made a part of this. The first installment shall be due via Electronic Funds Transfer ("EFT") on the first of the month following the successful completion of the training required under the franchise agreement between Holder and the Undersigned, and thereafter monthly installments will be due via EFT on the first day of each successive month until the principal and interest due under this Promissory Note have been paid in full. PROVIDED, HOWEVER, that the entire principal balance together with all accrued interest thereon shall be due and payable on or before 24 months following the payment of the first installment, anything here in this Agreement to the contrary notwithstanding.

2. Monthly installments shall be applied first upon interest and the balance upon principal. This Promissory Note may be prepaid in full at any time without restriction or penalty.

3. Should any monthly installment not be paid when due, then the whole sum of the remaining principal and interest shall become due immediately and payable without notice or demand at the option of the holder of this Promissory Note. All unpaid amounts owing on this Promissory Note shall immediately become due and payable at the option of Holder without notice or demand upon the occurrence of any of the following events of default: (i) the default of any provision of the Promissory Note; or (ii) the death, dissolution, insolvency (however expressed or indicated) or the filing of a petition in bankruptcy, reorganization or for the adjustment of debts for, by or against the Undersigned; (iii) the sale of substantially all of the Undersigned's stock or assets; (iv) the Undersigned's failure to permit Holder to collect amounts via EFT.

4. The Undersigned hereby waives presentation for payment, demand, notice of non-payment, protest, and all other demands and notices required by law (statutory or otherwise). In the event that the undersigned should default under this Promissory Note, and legal proceedings are commenced to collect the indebtedness evidenced hereby, the undersigned agrees to pay all costs and expenses, including reasonable attorney fees, incurred in the collection of this Promissory Note.

5. Should the undersigned transfer or assign their franchise rights to a third party prior to the pay-off of this Promissory Note, said Promissory Note must be paid in full before Holder will approve such transfer or assignment.

6. The validity, construction, interpretation and enforceability of the terms of this Promissory Note shall be determined and governed by the laws of the State of Michigan.

7. The Undersigned hereby confirms that the proceeds of this Promissory Note will be used for the business purpose of starting up a 1-800 WATER DAMAGE franchised business.


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8. It is the parties' intent that the provisions of this Promissory Note be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the provisions contained here in this Promissory Note shall not render any other part unenforceable.

9. Holder's failure to enforce any rights granted to it under this Promissory Note will not constitute a waiver of such rights.

10. This Promissory Note is binding upon and will insure to the benefit of the parties and their successors, heirs, and assigns.

11. The persons executing this Note on behalf of the Undersigned acknowledge their authority to do so.

**I HAVE READ THE ABOVE NOTE AND UNDERSTAND ITS TERMS. I WOULD NOT SIGN THIS NOTE IF I DID NOT UNDERSTAND AND AGREE TO BE BOUND BY ITS TERMS.**

As provided in this Franchise Agreement this Promissory Note is personally guaranteed by _____.

**HOLDER**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

Date: _____

**UNDERSIGNED**

**[FRANCHISEE ENTITY NAME]**

By: _____

Name: _____

Title: _____

Date: _____

**[FRANCHISEE NAME]**

_____

[NAME], Individually


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# EXHIBIT 1 TO PROMISSORY NOTE

## PAYMENT SCHEDULE

| | | | Opening Balance: | 10,000.00 |
|---|---|---|---|---|
| | | | Interest Rate: | 8.0% |
| **Payment Number** | **Amount** | **Interest** | **Principal** | **Balance** |
| 1 | $ 452.27 | 66.67 | 385.61 | 9,614.39 |
| 2 | $ 452.27 | 64.10 | 388.18 | 9,226.22 |
| 3 | $ 452.27 | 61.51 | 390.76 | 8,835.45 |
| 4 | $ 452.27 | 58.90 | 393.37 | 8,442.08 |
| 5 | $ 452.27 | 56.28 | 395.99 | 8,046.09 |
| 6 | $ 452.27 | 53.64 | 398.63 | 7,647.46 |
| 7 | $ 452.27 | 50.98 | 401.29 | 7,246.17 |
| 8 | $ 452.27 | 48.31 | 403.97 | 6,842.20 |
| 9 | $ 452.27 | 45.61 | 406.66 | 6,435.54 |
| 10 | $ 452.27 | 42.90 | 409.37 | 6,026.17 |
| 11 | $ 452.27 | 40.17 | 412.10 | 5,614.08 |
| 12 | $ 452.27 | 37.43 | 414.85 | 5,199.23 |
| 13 | $ 452.27 | 34.66 | 417.61 | 4,781.62 |
| 14 | $ 452.27 | 31.88 | 420.40 | 4,361.22 |
| 15 | $ 452.27 | 29.07 | 423.20 | 3,938.03 |
| 16 | $ 452.27 | 26.25 | 426.02 | 3,512.01 |
| 17 | $ 452.27 | 23.41 | 428.86 | 3,083.15 |
| 18 | $ 452.27 | 20.55 | 431.72 | 2,651.43 |
| 19 | $ 452.27 | 17.68 | 434.60 | 2,216.83 |
| 20 | $ 452.27 | 14.78 | 437.49 | 1,779.34 |
| 21 | $ 452.27 | 11.86 | 440.41 | 1,338.93 |
| 22 | $ 452.27 | 8.93 | 443.35 | 895.58 |
| 23 | $ 452.27 | 5.97 | 446.30 | 449.28 |
| 24 | $ 452.27 | 3.00 | 449.28 | (0.00) |


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# EXHIBIT F
# TO THE FRANCHISE AGREEMENT

# STATE ADDENDA TO THE FRANCHISE AGREEMENT

**ADDENDUM TO THE FRANCHISE AGREEMENT FOR USE IN CALIFORNIA**

This is an addendum to the Franchise Agreement between 1 800 WATER DAMAGE INTERNATIONAL, LLC, a Michigan Limited Liability Company, with its principal place of business at 731 Fairfield Court, Ann Arbor, Michigan (referred to in this Agreement as "we," "us," and "ourselves"), and NAME, (referred to as "you" and "Managing Owner"), residents of the State of STATE, and CORPORATION, a STATE company to be formed or already existing, whose principal address is ADDRESS (referred to in this Agreement as "you," "your" or "Franchisee").

Notwithstanding anything to the contrary in the Franchise Agreement, if there is a conflict between the terms of this Addendum and the terms of your Franchise Agreement, the terms of this Addendum shall control and supersede the Franchise Agreement. Any terms not defined herein shall have the same meanings as in the Franchise Agreement and any references to sections and paragraphs refer to the sections and paragraphs of the Franchise Agreement unless stated otherwise.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledges by each of the parties signing below, it is hereby agreed and understood that the following will supersede and replace Section 13.D. of the Franchise Agreement:

**13.D. COVENANT NOT TO COMPETE.**

You acknowledge and reaffirm that the 1-800 WATER DAMAGE customer list developed under your Franchise Agreement, is the sole and exclusive proprietary information of 1 800 WATER DAMAGE INTERNATIONAL, LLC, and you have no ownership right(s) or any other interest in this customer list except as a 1-800 WATER DAMAGE Franchisee. In the event of any future termination and/or expiration of your franchise agreement with 1 800 WATER DAMAGE INTERNATIONAL, LLC, you will not retain, in any form, a copy of this customer list. You further agree not to market to, service or otherwise deal with any customers on the list for residential or commercial remediation services for a period of 24 months after the termination and/or expiration of your Franchise Agreement.

It is also agreed and understood that if you sell any one (1) or more of your 1-800 WATER DAMAGE franchise businesses, as a condition precedent to our approving your purchaser as a new 1-800 WATER DAMAGE Franchisee, you will agree with your purchaser and with us not to compete for 24 months after the sale closing, in the remediation services, cleaning and restoration business within a geographic area extending out from the purchased 1-800 WATER DAMAGE territory boundaries, in every direction, for 50 miles. Provided, however, these non-competition provisions do not create or imply any additional restrictions upon your ownership of other 1-800 WATER DAMAGE franchise business(es) in and around this geographic area.

The terms of this Addendum shall remain confidential and may not be disclosed except when and to the extent necessary to comply with applicable federal, state, or local laws or regulations.

In all other respects, the terms and conditions contained in your original Franchise Agreement, and any previous addendums to your Franchise Agreement, remain in full force and effect. Further this it to confirm that we have made no other promises or commitments of any nature concerning this or any other aspect of your franchise business that have not been set forth in writing, and any

future promises, commitments or assurances must be in writing and signed by both of us, to be enforceable.

**FRANCHISOR**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

Date: _____

**FRANCHISEE**

**[FRANCHISEE ENTITY NAME]**

By: _____

Name: _____

Title: _____

Date: _____

## EXHIBIT G
## TO THE FRANCHISE AGREEMENT

### CONFIDENTIALITY/NON-DISCLOSURE AGREEMENT

With respect to determining the feasibility of whether or not to purchase a 1-800 WATER DAMAGE franchise, 1 800 WATER DAMAGE INTERNATIONAL, LLC, is are prepared to provide you with certain financial, business, marketing, and operational information concerning the business operations of 1 800 WATER DAMAGE INTERNATIONAL, LLC.

We are able to provide you this Information with your explicit understanding and agreement that you recognize and agree that this information is confidential and valuable, and that this information constitutes special and unique proprietary rights and assets of 1 800 WATER DAMAGE INTERNATIONAL, LLC.

The term "Confidential Information" shall mean and include any and all information disclosed by us to you relating to the 1-800 WATER DAMAGE business and potential trade name and internet web names, whether copyrighted or patented. Provided; however, Confidential Information shall not include information which:

A. Is disclosed to you following the date of this Agreement by a third party who is not under an obligation to keep the information confidential;

B. Is or becomes publicly disclosed through no act or omission of yours; and/or

C. Information previously known by you prior to contact with 1-800 WATER DAMAGE.

In accepting this Information, you agree that you will not disclose it to any third party or make use of it yourself, in any regard, with the exception that it may disclosed to an attorney, accountant or business consultant that you utilize as part of your due diligence process, provided you assure they are informed of and comply with all the terms of this Confidentiality and Non-Disclosure Agreement.

You further agree to maintain the confidentiality of any and all confidential information which has been provided to you in a manner using at least the same degree of care as the manner used to maintain the confidentiality of your most confidential information.

In the event that you do not purchase a 1-800 WATER DAMAGE business, or upon our request at any time, you agree to return all materials furnished to you or to certify in writing that such information has been destroyed.

You further recognize that breach of this Confidentiality and Non-Disclosure Agreement by you will cause severe and irreparable damage to 1 800 WATER DAMAGE INTERNATIONAL, LLC, and that 1 800 WATER DAMAGE INTERNATIONAL, LLC, may pursue all of its rights and remedies after any breach, including specific performance.

Please indicate that you agree to the conditions, as stated above, under which confidential information will be furnished to you by signing a copy of this letter in the space provided below.

**ACKNOWLEDGED**:

By: _____ Date: _____

Signature

## EXHIBIT H
## TO THE FRANCHISE AGREEMENT

## DISCLOSURE ACKNOWLEDGEMENT STATEMENT

*To be completed by each signatory to the Franchise Agreement.*

Through the use of this document, we desire to ascertain that you understand and comprehend that the purchase of a 1 800 WATER DAMAGE INTERNATIONAL, LLC franchise is a business decision, complete with its associated risks, and that it is the policy of 1 800 WATER DAMAGE INTERNATIONAL, LLC to verify that you are not relying upon any oral statement, representations, promises, or assurances during the negotiations for the purchase of the franchise which have not been authorized by 1 800 WATER DAMAGE INTERNATIONAL, LLC.

1. I recognize and understand that business risks, which exist in connection with the purchase of any business, make the success or failure of the franchise subject to many variables, including my skills and abilities, the hours I work, the competition, interest rates, the economy, inflation, business location, operation costs, lease terms, and costs and the market place. I hereby acknowledge my willingness to undertake these risks.

2. I acknowledge receipt of the 1 800 WATER DAMAGE INTERNATIONAL, LLC Franchise Disclosure Document and Exhibits. I acknowledge that I have had the opportunity to personally and carefully review these documents. Furthermore, I have been advised to seek professional assistance, to have professionals review the documents, and to consult with other Franchisees regarding the risks associated with the purchase of the franchise. I agree and state that the decision to enter into this business risk is in no manner predicated upon any oral representations, assurances, warranties, guarantees, or promised made by 1 800 WATER DAMAGE INTERNATIONAL, LLC or any of its officers, employees, or agents (including any franchise broker) as to the likelihood of success of the franchise. I further acknowledge that I have not received any information from 1 800 WATER DAMAGE INTERNATIONAL, LLC or any of its officers, employees, or agents (including any franchise brokers) concerning actual, average, projected, or forecasted franchise sales, profits, or earnings, other than that which is contained in Item 19 of the Franchise Disclosure Document.

3. If I believe that I have received any information concerning actual, average, projected, or forecasted franchise sales, profits, or earnings, I will describe them in the space below. If no information concerning actual, average, projected, or forecasted franchise sales, profits, or earnings, other than those contained in Item 19, have been received, please write "None."

**ACKNOWLEDGED BY**:

_____ Date: _____

Signature

**ACKNOWLEDGED BY**:

_____ Date: _____

Signature

**EXHIBIT I**
**TO THE FRANCHISE AGREEMENT**

**GENERAL RELEASE – RENEWAL**

**THIS SETTLEMENT AND RELEASE** is being made by and between 1 800 WATER DAMAGE INTERNATIONAL, LLC ("1-800 WATER DAMAGE") and [Name] (together referred to as the "FRANCHISE OWNER" and/or "you") resident of [State], and [Corp/LLC,] ("Franchisee") and shall be effective as of the date of the last signature below.

**W I T N E S S E T H:**

**WHEREAS**, 1-800 WATER DAMAGE and FRANCHISE OWNER(S) entered into Franchise Agreement on the [date] (the "Franchise Agreements") for the operation of a 1-800 WATER DAMAGE business in a defined territory(s) in the state of [State] (the "Business"), which Franchise Agreements is being renewed;

**NOW, THEREFORE,** for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by and between each of the parties, it is agreed and understood as follows:

1. FRANCHISE OWNER(S) and FRANCHISOR have agreed upon new renewal Franchise Agreements, to be executed contemporaneously with this Mutual Release, which will replace your original Franchise Agreements, thus continuing FRANCHISE OWNER(S) rights to operate a 1-800 WATER DAMAGE business within a Territory, as defined in the Franchise Agreement in the State of [State].

2. In reliance upon the execution of renewal Franchise Agreements, the parties agree to the following mutual releases:

A. FRANCHISE OWNER(S) and FRANCHISEE, for themselves and for their employees, agents, heirs, successor and assigns, and for every other person, firm, entity, and/or corporation succeeding to the interest of FRANCHISE OWNER(S) and/or FRANCHISEE, hereby releases, acquits, and forever discharges 1-800 WATER DAMAGE and its directors, officers, shareholders, employees, agents, legal representatives, successors and assigns, and every other person, firm, entity, and/or corporation succeeding to its interests, from any and all claims, actions, causes of action, demands, costs, losses, expenses and suits whatsoever and of every conceivable kind, character, and nature, whether absolute or contingent, and whether known or unknown, which either party may have against the other, by reason of, or arising out of, or in any way related to any acts or omissions of the other party occurring prior to the date of this Release.

B. 1-800 WATER DAMAGE, for themselves and for their employees, agents, heirs, successor and assigns, and for every other person, firm, entity, and/or corporation succeeding to the interest of FRANCHISOR, hereby releases, acquits, and forever discharges FRANCHISE OWNER(S) and/or FRANCHISEE and their directors, officers, shareholders, employees, agents, legal representatives, successors and assigns, and every other person, firm, entity, and/or corporation succeeding to its interests, from any and all claims, actions, causes of

action, demands, costs, losses, expenses and suits whatsoever and of every conceivable kind, character, and nature, whether absolute or contingent, and whether known or unknown, which either party may have against the other, by reason of, or arising out of, or in any way related to any acts or omissions of the other party occurring prior to the date of this Release.

C. **[CALIFORNIA ONLY]** Except as set forth herein, 1-800 WATER DAMAGE, FRANCHISE OWNER(S) and FRANCHISEE expressly waives and relinquishes all rights and benefits afforded by Section 1542 of the Civil Code of the State of California ("Section 1542"), and does so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 states as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH EITHER PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AS OF THE DATE OF EXECUTION OF THIS AGREEMENT, WHICH IF KNOWN BY SUCH PARTY WOULD HAVE MATERIALLY AFFECTED THE TERMS OF THE AGREEMENT."

Notwithstanding the provisions of Section 1542, and for the purpose of implementing the general release and discharges described in this paragraph, 1-800 WATER DAMAGE, FRANCHISE OWNER(S) and FRANCHISEE expressly acknowledge that this Agreement is intended to include in its effect without limitation, all claims described in this paragraph which 1-800 WATER DAMAGE, FRANCHISE OWNER and/or FRANCHISEE does not know or suspect to exist in its favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claims.

3. Any controversy or claim whatsoever arising out of or relating to this Release or the enforcement of the promises made by the parties herein or with regard to the interpretation, formation, or breach of this Release, shall be litigated exclusively in the courts of general jurisdiction of Washtenaw County, Michigan or the United States District Court presiding over Ann Arbor, Michigan.

4. Both parties acknowledges and agree that money damages will not be a sufficient remedy for any breach of this provision and that either party shall be entitled to specific performance as a remedy for any such breach. Such remedy shall not be deemed to be the exclusive remedy, but shall be in addition to all other remedies available at law or equity to the party. In the event of any litigation to enforce any of the terms of this Mutual Release, the unsuccessful party shall pay the costs and attorneys' fees of the successful party.

5. Neither this Release nor any provision of this Release can be modified or waived in any way, except by an agreement in writing signed by each of the parties hereto, consenting to such modification or waiver.

6. All parties hereto do hereby acknowledge and agree that they have been represented by independent counsel of their own choice throughout all negotiations which preceded the execution of this Release, and that they have executed this Release with the consent and upon the advice of said independent counsel.

7. This Release may be signed in two (2) or more counterparts, and will be effective when all the parties and signatories have affixed their signatures to two (2) or more of the

counterparts and they have been delivered as aforesaid, at which time the counterparts together will be deemed one (1) original document.

8. The terms of this Mutual Release shall remain confidential and may not be disclosed except when and to the extent necessary to comply with applicable federal, state, or local laws or regulations.

9. This Agreement contains the entire agreement between the parties hereto concerning the resolution of any and all disputes or controversies between or among them.

10. **[MARYLAND ONLY]** This Mutual Release may not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

**IN WITNESS WHEREOF**, the parties have caused this Release to be executed as of the day and year written below.

**FRANCHISOR**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

**FRANCHISEE**

**[FRANCHISEE ENTITY/NAME]**

By: _____

Name: _____

Title: _____

**FRANCHISE OWNER(S)**

_____
[Name of Owner], Individually

_____
[Name of Owner], Individually

_____
[Name of Owner], Individually

**EXHIBIT J**
**TO THE FRANCHISE AGREEMENT**

**GENERAL RELEASE – ASSIGNMENT**

THIS SETTLEMENT AND RELEASE is being made by and between 1 800 WATER DAMAGE INTERNATIONAL, LLC ("1-800 WATER DAMAGE" and/or "Franchisor") and [Franchise Owner Name(s)] (together referred to as the "FRANCHISE OWNER(S)"), resident(s) of [State], and [Company] ("Franchisee") and shall be effective as of the date of the last signature below.

**W I T N E S S E T H:**

**WHEREAS,** 1-800 WATER DAMAGE and FRANCHISE OWNER(S) entered into a Franchise Agreement on the _____ day of _____, 20___ (the "Franchise Agreement(s)") for the operation of a 1-800 WATER DAMAGE business in a defined territory(s) in the state of [State Name(s)], (the "Business");

**WHEREAS,** 1-800 WATER DAMAGE and FRANCHISE OWNER(S) have reached agreement that it is in the best interest of all parties for FRANCHISE OWNER(S) to discontinue operations and terminate the Franchise Agreement, upon the terms and conditions specified below, and for the parties to exchange mutual releases;

**NOW THEREFORE,** in consideration of the mutual covenants and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by and between each of the parties, it is agreed and understood as follows:

1. Effective as of the date last signed below, FRANCHISE OWNER(S) hereby transfers, sets over and assigns to 1-800 WATER DAMAGE all right, title and interest in and to the Franchise Agreement and agrees to abide by and observe all Post-Termination Obligations and Covenants Not to Compete as set forth in the Franchise Agreement.

2. 1-800 WATER DAMAGE hereby releases FRANCHISE OWNER(S) from any further duties and obligations thereunder except those continuing duties and obligations specifically set forth in Paragraph 1 of this Agreement.

3. The parties hereby agree to the following mutual releases:

A. Except for the obligations of the parties herein contained, FRANCHISE OWNER(S) and FRANCHISEE for themselves, and their employees, agents, heirs, successors and assigns, and for every other person, firm, entity, and/or corporation succeeding to the interests of FRANCHISE OWNER(S) and/or FRANCHISEE, hereby releases, acquits, and forever discharges 1-800 WATER DAMAGE and it directors, officers, members, shareholders, employees, agents, legal representatives, heirs, successors and assigns, and every other person, firm, entity, and/or corporation succeeding to its interests, from any and all claims, actions, causes of action, demands, costs, losses, expenses, and suits whatsoever and of every conceivable kind, character and nature, whether absolute or contingent and whether known or unknown, which FRANCHISE OWNER(S) and/or FRANCHISEE has, has had or may ever have against 1-800 WATER DAMAGE, by reason of, or arising out of, or in any way related to any acts or omissions of the other party prior to the date of this Agreement.

B. Except for the obligations of the parties herein contained, 1-800 WATER DAMAGE for themselves, and their employees, agents, heirs, successors and assigns, and for every other person, firm, entity, and/or corporation succeeding to the interests of 1-800 WATER DAMAGE, hereby releases, acquits, and forever discharges FRANCHISE OWNER(S) and FRANCHISEE and it directors, officers, members, shareholders, employees, agents, legal representatives, heirs, successors and assigns, and every other person, firm, entity, and/or corporation succeeding to its interests, from any and all claims, actions, causes of action, demands, costs, losses, expenses, and suits whatsoever and of every conceivable kind, character and nature, whether absolute or contingent and whether known or unknown, which 1-800 WATER DAMAGE has, has had or may ever have against FRANCHISE OWNER(S) and/or FRANCHISEE, by reason of, or arising out of, or in any way related to any acts or omissions of the other party prior to the date of this Agreement.

C. **[CALIFORNIA – for use in CA only]** Except as set forth herein, 1-800 WATER DAMAGE, FRANCHISE OWNER(S) and FRANCHISEE expressly waives and relinquishes all rights and benefits afforded by Section 1542 of the Civil Code of the State of California ("Section 1542"), and does so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH EITHER PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AS OF THE DATE OF EXECUTION OF THIS AGREEMENT, WHICH IF KNOWN BY SUCH PARTY WOULD HAVE MATERIALLY AFFECTED THE TERMS OF THE AGREEMENT."

Notwithstanding the provisions of Section 1542, and for the purpose of implementing the general release and discharges described in this paragraph, 1-800 WATER DAMAGE, FRANCHISE OWNER(S) and FRANCHISEE expressly acknowledge that this Agreement is intended to include in its effect without limitation, all claims described in this paragraph which 1-800 WATER DAMAGE, FRANCHISE OWNER(S) and/or FRANCHISEE does not know or suspect to exist in its favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claims.

4. Any controversy or claim whatsoever arising out of or relating to this Release or the enforcement of the promises made by the parties herein or with regard to the interpretation, formation, or breach of this Release, shall be litigated exclusively in the courts of general jurisdiction of Washtenaw County, Michigan or the United States District Court presiding over Ann Arbor, Michigan.

5. Neither this Mutual Release nor any provision of this Mutual Release can be modified or waived in any way, except by an agreement in writing signed by each of the parties hereto, consenting to such modification or waiver.

6. All parties hereto do hereby acknowledge and agree that they have been represented by independent counsel of their own choice throughout all negotiations which preceded the execution of this Mutual Release, and that they have executed this Mutual Release with the consent and upon the advice of said independent counsel.

7. This Mutual Release may be signed in two (2) or more counterparts, and will be effective when all the parties and signatories have affixed their signatures to two (2) or more of the

counterparts and they have been delivered as aforesaid, at which time the counterparts together will be deemed one (1) original document.

8. The terms of this Mutual Release shall remain confidential and may not be disclosed except when and to the extent necessary to comply with applicable federal, state, or local laws or regulations.

9. This Agreement contains the entire agreement between the parties hereto concerning the resolution of any and all disputes or controversies between or among them.

10. **[MARYLAND – for use in MD only]** This Mutual Release may not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

11. **[TRANSFERS – WHEN BUYER IS PAYING IN INSTALLMENTS]** FRANCHISE OWNER(S) and Franchisee acknowledge and agree (i) that they negotiated the sale of their franchise to Buyer Company without the assistance, or any other involvement of the Franchisor; (ii) that the purchase price for such sale (the "Purchase Price") will not be paid in full at closing, but will be paid over a period of time after closing, and (iii) that they are assuming the full risk of nonpayment of the Purchase Price, FRANCHISE OWNER(S) and Franchisee further agree that they will not, in any manner, at any time, under any set of circumstances, seek payment of any portion of the Purchase Price from Mr. 1 800 WATER DAMAGE INTERNATIONAL, LLC, and/or any of its directors, officers, members, shareholders, employees, agents, representatives, heirs, successors or assigns.

IN WITNESS WHEREOF, the parties have caused this Release to be executed as of the day and year written below.

**FRANCHISOR**

**1 800 WATER DAMAGE INTERNATIONAL, LLC**

By: _____

Name: _____

Title: _____

**FRANCHISEE**

**[FRANCHISEE ENTITY/NAME]**

By: _____

Name: _____

Title: _____

**FRANCHISE OWNER(S)**

_____
[Name of Owner], Individually

_____
[Name of Owner], Individually

_____
[Name of Owner], Individually

**EXHIBIT K**
**TO THE FRANCHISE AGREEMENT**

**ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION**

**AUTOMATIC DEBIT OF AMOUNT DUE TO FRANCHISOR**

Franchise Managing Owner: _____

I, Franchise Managing Owner of _____ (company) a 1 800 WATER DAMAGE INTERNATIONAL, LLC Franchised Business, authorize 1 800 WATER DAMAGE INTERNATIONAL, LLC; (referred to as "Franchisor") to debit on the 10th day of each month from Franchise Owner's bank account, the amount of Royalty due to the Franchisor based on Gross Sales of the above referenced 1 800 WATER DAMAGE INTERNATIONAL, LLC franchise, the Monthly Technology & License Fees, the Home Page Fee, the Referral Fee, as well as fees associated to the call center, regional and/or national account programs, the direct mail campaign, local marketing fees, Human Resource Assistance and the Annual Convention savings, any Late Fees or Interest, marketing and any other fees owing to Franchisor as they come due.

I understand that I must pay Royalties for Gross Sales as agreed in the Franchise Agreement. I also understand that Royalty shall be withdrawn on a monthly basis. Franchisor will draft the royalty from my bank account on the 10th day of each month for Gross Sales generated in the preceding month. I also understand that Franchisor may, with seven (7) days prior notice to me, periodically specify other dates for payment of the royalty.

Franchisee Bank Information

| | |
|---|---|
| Bank Name | |
| Bank Address | |
| Account Name | |
| ABA Routing Number | |
| Account Number | |

**FRANCHISEE**

**[FRANCHISEE ENTITY/NAME]**

By: _____ Date: _____

Name: _____

Title: _____

## EXHIBIT L

## TO THE FRANCHISE AGREEMENT

## GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

This guaranty (the "Guaranty") must be signed by the principal owners and spouses of _____ ("Franchisee") under the franchise agreement dated _____, 20__ (the "Agreement") with 1 800 WATER DAMAGE INTERNATIONAL, LLC, a Delaware Limited Liability Company, with its principal place of business at 731 Fairfield Court, Ann Arbor, Michigan 48108 ("Franchisor").

Each of the undersigned hereby personally and unconditionally:

*Guarantees to the Franchisor, its affiliates, and its successors and assigns, for the term of the Agreement, including renewals of the Agreement, that Franchisee shall punctually pay and perform each and every undertaking, agreement and covenant as described in the Agreement; and*

*Agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, including but not limited to all obligations thereunder to pay the Franchisor and the post-termination obligations, including, without limitation, those provisions involving confidentiality, restrictive covenants and dispute resolution.*

Each of the undersigned waives the following:

1. Acceptance and notice of acceptance by the Franchisor of the foregoing undertaking;

2. Notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed;

3. Protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed;

4. Any right he or she may have to require that any action be brought against Franchisee or any other person as a condition of liability; and

5. Any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that:

1. His or her direct and immediate liability under this guaranty shall be joint and several;

2. He or she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so;

3. Such liability shall not be contingent or conditioned upon pursuit by the Franchisor of any remedies against Franchisee or any other person; and

4. Such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which the Franchisor may from time to time grant to Franchisee or to any other person including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Agreement, including renewals.

**IN WITNESS WHEREOF**, each of the undersigned has affixed his or her signature effective on the same day and year as the Agreement was executed.

**WITNESS**

_____

Date: _____

_____

Date: _____

_____

Date: _____

**GUARANTOR(S)**

_____

Date: _____

_____

Date: _____

_____

Date: _____

**SPOUSES**

_____

Date: _____

_____

Date: _____

_____

Date: _____

| State | State Administrator |
|---|---|
| NEW YORK | New York State Department of Law<br>Bureau of Investor Protection and Securities,<br>23rd Floor<br>120 Broadway<br>New York, NY 10271<br>212.416.8222 |
| NORTH DAKOTA | North Dakota Securities Department<br>600 East Boulevard Avenue<br>State Capital, Fifth Floor Dept. 414<br>Bismarck, ND 58505-0510<br>701-328-4712 |
| OREGON | Department of Consumer and Business<br>Services<br>Division of Finance and Corporate Securities<br>350 Winter Street, N.E. #410<br>Salem, OR 97310<br>503.378.4387 |
| RHODE ISLAND | Department of Business Regulation<br>Division of Securities<br>1151 Pontiac Avenue Building 69-1<br>Cranston, RI 02920<br>401.222.3048 |
| SOUTH DAKOTA | Department of Labor and Regulation<br>Division of Securities<br>124 S. Euclid, Suite 104<br>Pierre, SD 57501<br>605.773.4823 |
| VIRGINIA | State Corporation Commission<br>Division of Securities and Retail Franchising<br>1300 East Main Street, 9th Floor<br>Richmond, VA 23219<br>804.371.9051 |
| WASHINGTON | Department of Financial Institutions<br>Securities Division<br>P.O. Box 9033<br>Olympia, WA 98507-9033<br>360.902.8760 |
| WISCONSIN | Wisconsin Securities Commissioner<br>Department of Financial Institutions<br>201 W. Washington Ave., 3rd Floor<br>P.O. Box 1768<br>Madison, WI 53703<br>608-261-9555 |

## Exhibit D

## TO FRANCHISE DISCLOSURE DOCUMENT

## AGENTS FOR SERVICE OF PROCESS

| State | Agent for Service of Process |
|---|---|
| CALIFORNIA | California Commissioner of Business Oversight<br>320 West 4th Street, Suite 750<br>Los Angeles, CA 90013<br>213.576.7500 or Toll Free<br>866.275.2677 |
| HAWAII | Commissioner of Securities of the State of Hawaii<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>808.586.2722 |
| ILLINOIS | Illinois Attorney General<br>500 South Second Street<br>Springfield, IL 62706<br>217.782.1090 |
| INDIANA | Indiana Secretary of State<br>201 State House<br>Indianapolis, IN 46204<br>317.232.6681 |
| MARYLAND | Maryland Securities Commissioner<br>200 St. Paul Place<br>Baltimore, MD 21202-2020<br>410.576.6360 |
| MICHIGAN | Michigan Department of Commerce, Corporations and Securities Bureau<br>670 Law Building<br>Lansing, MI 48913<br>517.373.7117 |
| MINNESOTA | Minnesota Commissioner of Commerce<br>85 7th Place East, Suite 500<br>St. Paul, MN 55101<br>651.296.4026 |
| NEW YORK | Secretary of State<br>99 Washington Avenue<br>Albany, NY 12231 |
| NORTH DAKOTA | North Dakota Securities Commissioner<br>600 East Boulevard Avenue<br>State Capital, Fifth Floor Dept. 414<br>Bismarck, ND 58505-0510<br>701-328-4712 |

| State | Agent for Service of Process |
|---|---|
| OREGON | Director of Oregon Department of Insurance and Finance<br>350 Winter Street, N.E. #410<br>Salem, OR 97310<br>503.378.4387 |
| RHODE ISLAND | Director of Rhode Island Department of Business Regulation<br>1151 Pontiac Avenue Building 69-1<br>Cranston, RI 02920<br>401.222.3048 |
| SOUTH DAKOTA | Director of South Dakota Division of Securities<br>124 S. Euclid, Suite 104<br>Pierre, SD 57501<br>605.773.4823 |
| VIRGINIA | Clerk of State Corporation Commission<br>1300 East Main Street, 1st Floor<br>Richmond, VA 23219<br>804.371.9051 |
| WASHINGTON | Director of Washington Financial Institutions<br>150 Israel Road SW<br>Tumwater, Washington 98501<br>360.902.8760 |
| WISCONSIN | Commissioner of Securities of Wisconsin<br>201 W. Washington Ave., 3rd Floor<br>Madison, WI 53703<br>P.O. Box 1768<br>608-261-9555 |

**Exhibit E**

**TO FRANCHISE DISCLOSURE DOCUMENT**

**STATE ADDENDA TO DISCLOSURE DOCUMENT**

**ADDITIONAL DISCLOSURES FOR THE STATE OF CALIFORNIA**

In recognition of the requirements of the California Franchise Investment Law, Cal. Corp. Code §§ 31000-31516, and the California Franchise Relations Act, Cal. Bus. & Prof. Code §§ 20000 – 20043, the Franchise Disclosure Document, in connection with the offer and sale of franchises for use in the State of California, shall be amended to include the following:

The following is added to the Cover Page of this Disclosure Document:

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.

SECTION 31125 OF THE FRANCHISE INVESTMENT LAW REQUIRES US TO GIVE YOU A DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER OF BUSINESS OVERSIGHT BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE OPERATOR AGREEMENT.

The cover page of this Disclosure Document is amended to state that the California's Department of Business Oversight toll free number is 866.275.2677.

Item 5 of the Franchise Disclosure Document is hereby supplemented with the following:

Based on Franchisor's financial condition, the California Department of Business Oversight requires that we post a surety bond. We have secured a surety bond in the amount of $82,500.00 from the Hartford Fire Insurance Company to ensure fulfillment of all of our pre-opening obligations to you under the Franchise Operator Agreement.

Item 6 of the Franchise Disclosure Document is hereby supplemented with the following: "The highest interest rate allowed in California is 10%."

The following paragraphs are added at the end of Item 17 of the Disclosure Document:

1. California Law Regarding Termination and Non-Renewal. California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or non-renewal of a franchise. If the Franchise Operator Agreement contains any provision that is inconsistent with the law, the law will control.

2. Non-Competition Covenants. The Franchise Operator Agreement contains a covenant not to compete that extends beyond the termination of the franchise. This provision may not be enforceable under California law.

3. Applicable Law. The Franchise Operator Agreement requires application of the laws of the State of Michigan. This provision may not be enforceable under California law.

4. General Release. The Franchise Operator Agreement requires you to sign a general release of claims upon renewal or transfer of the Franchise Operator Agreement. California Corporations Code Section 31512 provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 31000-31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000-20043).

5. Applicable Law. The Franchise Operator Agreement requires application of the laws and forums of the State of Michigan. This provision may not be enforceable under California law.

6. Litigation. The Franchise Operator Agreement requires that all disputes be litigated in Michigan. This provision may not be enforceable under California law. Prospective franchises 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 and Code of Civil Procedure Section 1281) to any provisions of the Franchise Operator Agreement restricting venue to a forum outside of the State of California.

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

OUR WEBSITE WWW.1800WATERDAMAGE.COM HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT, ANY COMPLAINTS CONCERNING THE CONTENT OF THE WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT WWW.DBO.CA.GOV.

Neither we, nor any person, or franchise broker in Item 2 of the Disclosure Document, is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

**Exhibit F**

**TO FRANCHISE DISCLOSURE DOCUMENT**

**LIST OF FRANCHISEES**

1-800 WATER DAMAGE of Phoenix
Tom & Alicia Hodges
26996 N 90th Lane
Peoria, AZ 85383
602-715-2225
tom.hodges@1800waterdamage.com

1-800 WATER DAMAGE of Colorado Springs
Michael & Michelle Whittemore
PO Box 775
Cascade, CO 80809
719-359-5204
michael.whittemore@1800waterdamage.com

1-800 WATER DAMAGE of Denver
Darren Green
747 Sheridan Blvd
Lakewood, CO 80214
303-284-0145
darren.green@1800waterdamage.com

1-800 WATER DAMAGE of Mount Dora
Bret Poe
3804 N Hwy 19A
Mount Dora, FL 32757
352-735-8198
bret.poe@1800waterdamage.com

1-800 WATER DAMAGE of
Savannah/Hilton Head
Jim Richtman
106 Winnai Lane
Guyton, GA 31312
912-728-3857
jim.richtman@1800waterdamage.com

1-800 WATER DAMAGE of Boise
Doug Stern
2793 N Centrepoint Way
Meridian, ID 83646
208-887-0084
doug.stern@1800waterdamage.com

1-800 WATER DAMAGE of NE Lake Cnty
Scott & Deborah York
43230 N Sunset Ln
Antioch, IL 60002
262-299-4641
scott.york@1800waterdamage.com

1-800 WATER DAMAGE of South Indianapolis
DougSnell and Bob Betts
210 Meadowview Ln
Greenwood, IN 46142
317-399-9141
doug.snell@1800waterdamage.com

1-800 WATER DAMAGE of N Indianapolis
Roxann Frankel
7266 East 86th Street
Indianapolis, IN 46256
317-877-0015
robert.frankel@1800waterdamage.com

1-800 WATER DAMAGE of Southwestern Indiana
Tim Roderick Wright
766 E 200 N
Washington, IN 47501
812-610-4646
tim.wright@1800waterdamage.com

1-800 WATER DAMAGE of E Louisville
Shawn Baker
7311 Hwy 329
Crestwood, KY 40014
502-525-0133
shawn.baker@1800waterdamage.com

1-800 WATER DAMAGE of Central Maine
Jason Feugill
801 Eastern Ave
Augusta, ME 4330
207-629-5339
jason.feugill@1800waterdamage.com

1-800 WATER DAMAGE of SE Michigan
Fred & Lisa Arthur
4590 Pleasant Valley Rd
Brighton, MI 48114
248-412-4030
fred.arthur@1800waterdamage.com

1-800 WATER DAMAGE of Mid-MI
Ronald Lee Veenhuis
6012 S Linden Road
Swartz Creek, MI 48473
810-655-0388
ron.veenhuis@1800waterdamage.com

1-800 WATER DAMAGE of WNC
Nate Holmes
306 Elk Park Drive
Asheville, NC 28804
828-398-4027
nate.holmes@1800waterdamage.com

1-800 WATER DAMAGE of Greater South Charlotte
Aaron Bollinger
13401 Lancaster Highway
Pineville, NC 28134
704-780-4583
aaron.bollinger@1800waterdamage.com

1-800 WATER DAMAGE of S Raleigh
Red Howard
1129 Corporation Parkway
Raleigh, NC 27610
919-805-3171
red.howard@1800waterdamage.com

1-800 WATER DAMAGE of Jersey Shore
Rod Sturchio
55 Ocean Avenue
Monmouth Beach, NJ 7750
732-970-6822
rod.sturchio@1800waterdamage.com

1-800 WATER DAMAGE of Southern Passaic/Bergen County
John Cherup
45 Wadsworth St
Wallington, NJ 7057
201-636-2686
john.cherup@1800waterdamage.com

1-800 WATER DAMAGE of Youngstown / Shenango Valley
Shelly & Brian Seese
8302 Southern Bldv
Boardman, OH 44512
330-629-8568
shelly.seese@1800waterdamage.com

1-800 WATER DAMAGE of Cincinnati / Dayton, OH
Jason Byrd
4862 Business Center Way
Cincinnati, OH 45246
513-942-0820
jason.byrd@1800waterdamage.com

1-800 WATER DAMAGE of Knoxville
Jeff Te Pastte
1712 W Lamar Alexander Parkway
Maryville, TN 37801
865-238-0087
jeff.tepastte@1800waterdamage.com

1-800 WATER DAMAGE of Roanoke & NRV
Bob Bittle
815 Wasena Ave SW
Roanoke, VA 24015
540-315-4334
dave.bittle@1800waterdamage.com

1-800 WATER DAMAGE of Portland OR
1-800 WATER DAMAGE of Vancouver WA
Jim & Pam Chiodo
802 NE 82nd Street
Vancouver, WA 98665
360-737-7677
jim.chiodo@1800waterdamage.com

**Exhibit G**

**TO FRANCHISE DISCLOSURE DOCUMENT**

# LIST OF FORMER FRANCHISEES

Mike Stewart
108 Saddle Hill Road
Stamford, CT 06903
914-372-1315

Lamar Person
Angie Givins
245 N. Highland Avenue
Atlanta, GA 30307
404-552-9218

Greg Scott
211 S. Leech Street
Hobbs, NM 88240
575-397-0207

Mike Deffley
2158 Plainfield Pike
Cranston, RI 02921
401-527-8817

Robert Shahid
Ben McNeel
2 B Avondale Avenue
Charleston, SC 29407
843-573-9901

Randy Black
2410 Strathmore Drive
Highland Village, TX 75077
214-403-2812
rhblack@live.com

**Exhibit H**
**TO FRANCHISE DISCLOSURE DOCUMENT**
**Compliance Certification**

The date of my first face-to-face meeting with 1 800 WATER DAMAGE INTERNATIONAL, LLC's Franchise Marketing Representative, Franchise Broker or any other person to discuss the possible purchase of a Franchise was _____, 20___. Franchise Managing Operator or Franchisee Initials _____

The date on which I received a Franchise Disclosure Document was _____, 20____. Franchise Managing Operator or Franchisee Initials _____

The date when I received a fully completed copy (other than signatures) of the Franchise Operator Agreement or Franchise Agreement I later signed was _____, 20__. Franchise Managing Operator or Franchisee Initials _____

The earliest date on which I signed the Franchise Operator Agreement or Franchise Agreement or any other binding document (not including the Receipt page) was _____, 20__. Franchise Managing Operator or Franchisee Initials _____

The earliest date on which I delivered cash, check or other consideration to the Franchise Marketing Representative, broker, 1 800 WATER DAMAGE INTERNATIONAL, LLC ("Franchisor") or any other person or company was _____, 20__. Franchise Managing Operator or Franchisee Initials _____

Representations:

No promises, agreements, contracts, commitments, understandings, "side-deals", options, rights-of-first-refusal or otherwise have been made to or with me with respect to any matter (including but not limited to any representations or promises regarding advertising (television or otherwise), marketing, site location, operational assistance or otherwise) nor have I relied in any way on any such except as expressly outlined in the Franchise Operator Agreement or Franchise Agreement or written addendum signed by me and the President of Franchisor except as follows:

_____

_____

.

(If none, the prospective managing operator or franchisee shall write NONE in his/her own handwriting and initial same.) Franchise Managing Operator or Franchisee Initials _____

No oral, written or visual claim or representation, promise, agreement, contract, commitment, understanding or otherwise which contradicted, expanded upon or was inconsistent with the Franchise Disclosure Document or the Franchise Operator Agreement or Franchise Agreement was made to me by any person or entity, except as follows:

_____

_____.

(If none, the prospective managing operator or franchisee shall write NONE in his/her own handwriting and initial same.) Franchise Managing Operator or Franchisee Initials _____

Except as provided for in the Item 19 of the Franchise Disclosure Document, no oral, written or visual claim or representation (including but not limited to charts, tables, spreadsheets or mathematical calculations) which stated or suggested any specific level or range of actual or potential sales, costs, income, expenses, profits, cash flow, tax effects or otherwise (or from which such items might be ascertained) was made to me by any person or entity, except as follows:

_____

_____.

(If none, the prospective Franchise Managing Operator Franchisee shall write NONE in his/her own handwriting and initial same.) Franchise Managing Operator's or Franchisee Initials _____

No contingency, condition, prerequisite, prior requirement, proviso, reservation, impediment, stipulation, provision or otherwise exists with respect to any matter (including but not limited to obtaining financing, selection, purchase, lease or otherwise of a site, operational matters or otherwise) and/or with respect to my fully performing all of my obligations under the Franchise Operator Agreement and/or any other documents to be signed by me nor have I relied in any way on any such, except as expressly set forth in a writing signed by me and the President of Franchisor, except as follows:

_____

_____.

(If none, the prospective Franchise Managing Operator or franchisee shall write NONE in his/her own handwriting and initial same.)
Franchise Managing Operator or Franchisee Initials _____

I hereby understand that there will be no refunds. Franchise Managing Operator or Franchisee Initials _____

Except as outlined in Item 19 of the Franchise Disclosure Document, franchisor does not make or endorse nor does it allow any marketing representative, broker or other individual to make or endorse any oral, written, visual or other claim or representation (including but not limited to charts, tables, spreadsheets or mathematical calculations) which stated or suggested any specific level or range of actual or potential sales, costs, income, expenses, profits, cash flow, tax effects or otherwise (or from which such items might be ascertained) with respect to this or any other franchise, whether made on behalf or for Franchisor, any Franchisee, Franchise Managing Operator or other individual and expressly disclaims any such information, data or results.

In addition, Franchisor does not permit any promises, agreements, contracts, commitments, understandings, "side-deals", options, rights-of-first-refusal or otherwise or variations of, changes in or supplements to the Franchise Operator Agreement or Franchise Agreement or the existence of any contingencies or conditions to Franchise Managing Operator's or Franchisees obligations except by means of a written Addendum signed by Franchise Managing Operator or Franchisee and Franchisor.

If any such representations, "side-deals", contingencies or otherwise have been made by you by any person or otherwise exist, immediately inform the President of Franchisor.

The prospective Franchise Managing Operator or Franchisee understands and agrees to all of the foregoing and certifies that all of the above statements are true, correct and complete.

Prospective Franchise Managing Operator or Franchisee

Dated: _____ _____

## Exhibit I - 1

## TO FRANCHISE DISCLOSURE DOCUMENT

## FRANCHISE ORGANIZATIONS

We have created, sponsored or endorsed the following franchise organizations:

| Organization | Established | Address | Members |
|---|---|---|---|
| Franchise Advisory Council | January 2017 | 731 Fairfield Court Ann Arbor, MI 48108 | Co-Chairpersons:<br>- Derek Niederquell<br>- Ryan McLaughlin<br>Committee:<br>- Doug Snell, Franchisee 317-399-9141 Doug.Snell@1800waterdamage.com<br>- Fred Arthur, Franchisee 586-295-0593 Fred.Arthur@1800waterdamage.com<br>- Jason Byrd, Franchisee 513-886-3690 Jason.Byrd@1800waterdamage.com<br>- Red Howard, Franchisee 919-745-9128 Red.Howard@1800waterdamage.com |

## Exhibit I - 2

## TO FRANCHISE DISCLOSURE DOCUMENT

## INDEPENDENT FRANCHISEE ASSOCIATIONS

As of the date of this Disclosure Document, to our knowledge, there are no Independent 1-800 WATER DAMAGE Franchise Associations.

## Exhibit J
## TO FRANCHISE DISCLOSURE DOCUMENT

## RECEIPTS

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 1 800 WATER DAMAGE INTERNATIONAL, LLC offers you a franchise, it must provide the 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 1 800 WATER DAMAGE INTERNATIONAL, LLC 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on Exhibit C.

**New York and Rhode Island require that we give you this Disclosure Document at the earlier of the first personal meeting or ten business days before the execution of the franchise or other Agreement, or the payment of any consideration that relates to the Franchise Relationship. Michigan and Oregon require that we give you this Disclosure Document at least ten business days before the execution of the franchise or other Agreement, or the payment of any consideration that relates to the Franchise Relationship.**

Date of Issuance: April 18, 2016, as amended December 1, 2016

See Exhibit D for our registered agents authorized to receive service of process.

I have received a disclosure document dated April 18, 2016, as amended December 1, 2016, that included the following Exhibits:

A – Managing Franchise Operator Agreement
B – Financial Statements
C – State Administrators
D – Agents for Service of Process
E – State Addenda to the Disclosure Document
F – List of Franchisees
G – List of Former Franchisees
H - Compliance Certification
I-1 – Franchise Organizations
I-2 - Independent Franchisee Associations
J - Receipt

The franchise seller is 1 800 WATER DAMAGE INTERNATIONAL, LLC, 731 Fairfield Court, Ann Arbor, MI 48108, (734) 864-9799. Any additional individual franchise sellers involved in offering the 1-800 WATER DAMAGE franchises are:

Ken Osness, Director of Franchise Development, 1 800 WATER DAMAGE INTERNATIONAL, LLC
731 Fairfield Court, Ann Arbor, MI 48108, 734-864-9767

**Date Received**:_____

_____ _____
Signature of Prospective Franchisee Print Name

_____
Entity Name (if applicable)

You should return one copy of the signed receipt by signing, dating, and mailing it to us at 731 Fairfield Court, Ann Arbor, MI 48108 or faxing it to 734 222-0531, attn. Janet Hughes, Legal Administrator. You may keep the second copy for your records.

# RECEIPTS

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 1 800 WATER DAMAGE INTERNATIONAL, LLC offers you a franchise, it must provide the 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 1 800 WATER DAMAGE INTERNATIONAL, LLC 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on Exhibit C.

**New York and Rhode Island require that we give you this Disclosure Document at the earlier of the first personal meeting or ten business days before the execution of the franchise or other Agreement, or the payment of any consideration that relates to the Franchise Relationship. Michigan and Oregon require that we give you this Disclosure Document at least ten business days before the execution of the franchise or other Agreement, or the payment of any consideration that relates to the Franchise Relationship.**

Date of Issuance: April 18 , 2016, as amended December 1, 2016

See Exhibit D for our registered agents authorized to receive service of process.

I have received a disclosure document dated April 18, 2016, as amended December 1, 2016, that included the following Exhibits:

A – Managing Franchise Operator Agreement
B – Financial Statements
C – State Administrators
D – Agents for Service of Process
E – State Addenda to the Disclosure Document
F – List of Franchisees
G – List of Former Franchisees
H – Compliance Certification
I-1 – Franchise Organizations
I-2 - Independent Franchisee Associations
J - Receipt

The franchise seller is1 800 WATER DAMAGE INTERNATIONAL, LLC, 731 Fairfield Court, Ann Arbor, MI 48108, (734) 864-9799. Any additional individual franchise sellers involved in offering the 1-800 WATER DAMAGE franchises are:

Ken Osness, Director of Franchise Development, 1 800 WATER DAMAGE INTERNATIONAL, LLC
731 Fairfield Court, Ann Arbor, MI 48108, 734-864-9767

**Date Received**:_____

_____ _____
Signature of Prospective Franchisee Print Name

_____
Entity Name (if applicable)

You should return one copy of the signed receipt by signing, dating, and mailing it to us at 731 Fairfield Court, Ann Arbor, MI 48108 or faxing it to 734 222-0531, attn. Janet Hughes, Legal Administrator. You may keep the second copy for your records.