

FRANCHISE DISCLOSURE DOCUMENT



Ace Painting Franchising, LLC
a Delaware limited liability company
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
720-432-6125 or 1-866-808-8401
www.acehardwarepainting.com
www.helpfulacehardwarepainters.com

Ace Painting Franchising, LLC (“we”) offers the opportunity to serve your local community by operating a business providing much-needed, high-quality indoor and outdoor painting services for residential and commercial properties (an “Ace Hardware Painting Services Business”). By leveraging technology, an Ace Hardware Painting Services Business is simplified such that prior experience or knowledge of the house painting trade is not needed. You will be able to offer a fostering culture where painters are treated with dignity and respect toward the greatest good. This business operates during normal business hours using the trade name ACE HARDWARE PAINTING SERVICES™.

The total investment necessary to begin operation of an Ace Hardware Painting Services Business is estimated at \$89,030 to \$118,000. This includes \$51,950 that must be paid to the franchisor or an affiliate.

This Disclosure Document summarizes certain provisions of your Franchise Agreement and other information in plain English. Read this Disclosure Document and all accompanying agreements carefully. You must receive this Disclosure Document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact our company headquarters at 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228 and (720) 432-6125.

The terms of your contract will govern your franchise relationship. Don’t rely on the Disclosure Document alone to understand your contract. Read all of your contract carefully. Show your contract and this Disclosure Document to an advisor, like a lawyer or an accountant.

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

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: October 28, 2022

For use in: AL, AK, AZ, AR, CO, DE, DC, FL, ID, IL, IA, IN, KS, KY, MA, MI, MS, MO, MT, NE, NV, NH, NJ, NM, ND, OH, OK, OR, PA, RI, SD, TN, TX, UT, VT, WV, WI, and WY (see State Effective Dates page for effective dates in certain states.)

NOT FOR USE IN: CA, CT, GA, HI, LA, ME, MD, MN, NY, NC, SC, VA, WA, and U.S. TERRITORIES.

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Attachments H and I.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Attachment J includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Ace Hardware Painting Services business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be an Ace Hardware Painting Services franchisee?	Item 20 or Attachments H and I lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this Disclosure Document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Attachment K.

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

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by arbitration and/or litigation only in Colorado. Out-of-state arbitration or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to arbitrate or litigate with the franchisor in Colorado than in your own state.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

INFORMATION FOR PROSPECTIVE FRANCHISEES IN 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 provisions 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. (The above language has been included in this Disclosure Document as a condition for registration. We and you do not agree that the parties are restricted from choosing to conduct arbitration outside of Michigan and believe that each of the provisions of the Franchise Agreement, including each of the arbitration provisions, is fully enforceable. We and you intend to rely on the federal pre-emption under the Federal Arbitration Act.)
- (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 franchisee to meet the franchisor's then current reasonable qualifications or standards.

(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.

(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.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee or subfranchisor until the obligations 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.

The fact that there is a notice of this offering on file with the Attorney General does not constitute approval, recommendation, or endorsement by the Attorney General.

Any questions regarding the notice should be directed to:

State of Michigan
Department of Attorney General
Franchise Section - Consumer Protection Division
G. Mennen Williams Building, 1st Floor
525 W. Ottawa Street
Lansing, Michigan 48933
Telephone Number: (517) 373-7117

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ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this Franchise Disclosure Document, “we,” “us,” or “our” means Ace Painting Franchising, LLC, the Franchisor. “You” means the person, corporation, partnership or other entity that buys the franchise. If a corporation, partnership or other entity is the Franchisee, “you” also includes the Franchisee’s owners in certain situations.

The Franchisor and Predecessors

We are a Delaware limited liability company that was formed on November 15, 2021. We do business under our business name and under the name and service mark ACE HARDWARE PAINTING SERVICES™. We are a franchising company that sells and grants franchises for the operation of businesses (an “Ace Hardware Painting Services Business”) using the name and service mark “ACE HARDWARE PAINTING SERVICES™.” Our principal business address is 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228. Our agents for service of process are disclosed in Attachment K.

In 2015, Cameron Loughlin founded and operated a painting business called Mountain Skyline Painting, LLC, a Colorado limited liability company (“MSP”). On December 31, 2021, Ace Services Holdings LLC, one of our parents, acquired the assets of MSP. Through MSP, Mr. Loughlin created the systems and methods that are used today in an Ace Hardware Painting Services Business. Mr. Loughlin and MSP may be deemed our predecessors.

Parents

We have the following parent structure:

Name	Principal Business Address	Parent Status
Ace Painting Services, LLC (“APS”)	12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228	APS is a holding company that is our direct parent company and a wholly owned subsidiary of Ace Services. APS also owns APO, an affiliate of ours.
Ace Services Holdings LLC (“Ace Services”)	2200 Kensington Court, Oak Brook, Illinois 60523	Ace Services is a wholly owned subsidiary of Ace Hardware and the holding company of APS and other companies that offer in-home services direct to consumers.
Ace Hardware Corporation (“Ace Hardware”)	2200 Kensington Court, Oak Brook, Illinois 60523	Ace Hardware is our ultimate parent company. It is a retailer-owned cooperative. As of December 31, 2021, there were 4,751 Ace Hardware cooperative locations (4,398 Ace Hardware branded stores, which includes 210 company owned Ace Hardware stores, and 353 non-Ace Hardware branded stores) operating in the United States. Cooperative locations owned by members are deemed franchises in some states.

Affiliates

We are affiliated with the following companies that (1) conduct business of the type being offered under this Disclosure Document, (2) offer franchises in any line of business (in addition to our ultimate parent, Ace Hardware, as shown above), or (3) provide products or services to our franchisees:

Name	Principal Business Address	Business Operations
Ace Painting Operating, LLC (“APO”)	12567 West Cedar Drive, Suite 200 Lakewood, Colorado 80228	APO operates an Ace Hardware Painting Services Business similar to the franchise business offered under this Disclosure Document in the Denver, Colorado metropolitan market.
Ace Handyman Franchising, Inc. (“AHF”)	12567 West Cedar Drive, Suite 200 Lakewood, Colorado 80228	AHF franchises businesses offering handyman repair and maintenance services to residential and commercial customers under the name and service mark ACE HANDYMAN SERVICES® through separate franchise disclosure documents. As of December 31, 2021, there were 225 Ace Handyman Services franchised businesses operating in the United States.
Ace Plumbing Franchising, LLC (“APPF”)	2200 Kensington Court Oak Brook, Illinois 60523	APPF is currently not active. It intends to franchise businesses offering plumbing services for residential and commercial properties under the name and service mark ACE HARDWARE PLUMBING SERVICES™.
Westlake Hardware, Inc. (“Westlake”)	14000 Marshall Drive Lenexa, Kansas 66215	Westlake is owned by Ace Retail. It operates Ace Hardware retail stores and may provide products and services to our franchisees.
Great Lake Ace Hardware, Inc. (“GLA”)	27555 Farmington Road, Suite 110 Farmington Hills, Michigan 48334	GLA is owned by Ace Retail. GLA operates Ace Hardware retail stores and may provide products and services to our franchisees.

We are affiliated with the following additional related companies:

Name	Principal Business Address	Business Operations
Ace Retail Holdings LLC (“Ace Retail”)	2200 Kensington Court, Oak Brook, Illinois 60523	Ace Services is a wholly owned subsidiary of Ace Hardware and the holding company of Westlake and GLA.
Ace Handyman Services, Inc. (“AHS”)	12567 West Cedar Drive, Suite 200 Lakewood, Colorado 80228	AHS is a holding company and wholly owned subsidiary of Ace Services. AHS wholly owns AHF and AHO.
Ace Handyman Operating, Inc. (“AHO”)	12567 West Cedar Drive, Suite 200 Lakewood, Colorado 80228	AHO operates seven Ace Handyman Services businesses in the Denver, Colorado metropolitan area.

Name	Principal Business Address	Business Operations
Ace Senior Services, LLC (“Ace Senior Services”)	12567 West Cedar Drive, Suite 200 Lakewood, Colorado 80228	Ace Senior Services is a wholly owned subsidiary of Ace Services. Ace Senior Services offers helper services to seniors and others.
Ace Plumbing Services, LLC (“APPS”)	2200 Kensington Court Oak Brook, Illinois 60523	APPS is a holding company and wholly owned subsidiary of Ace Services. APPS wholly owns APPF and APPO.
Ace Plumbing Operating, LLC (“APPO”)	1101 East El Dorado Parkway Little Elm, Texas 75068	APPO operates a plumbing business in the Dallas/Fort Worth metropolitan area under the service mark LEGACY PLUMBING™.

Except as described above, neither we nor any of our parents, predecessors or affiliates have (1) conducted business of the type being franchised under this Disclosure Document, (2) offered franchises in any line of business, or (3) provides products or services to our franchisees.

The Franchise We Offer

We franchise to you or authorize you to operate a business (“Ace Hardware Painting Services Business”) under the mark ACE HARDWARE PAINTING SERVICES™ and related service marks, trademarks and trade names (“Marks”). An Ace Hardware Painting Services Business provides indoor and outdoor painting services and sales to residential and commercial customers by operating under a uniform system consisting of high standards of service, use of quality products, and the business format created and developed by us and our predecessors (the “Ace Hardware Painting Services System” or “System”). These services include indoor and outdoor painting, staining and other painting services to residential and commercial clients.

When you obtain a franchise from us, we license to you the right to use our Marks and the Ace Hardware Painting Services System within a protected territory that will be assigned to you (“Territory”). An Ace Hardware Painting Services Business franchise grants you a Territory of up to 70,000 households generally delineated by zip codes. All Territories include the businesses in the Territories. You will operate from an office (“Business Location”), which may be located in your home. You pay us the initial fees discussed in ITEM 5 of this Disclosure Document, and sign our standard franchise agreement (“Franchise Agreement”) prior to operating your Ace Hardware Painting Services Business. A copy of our Franchise Agreement is attached to this Disclosure Document as Attachment A.

If you operate an existing independent business that provides services and products similar to those offered by Ace Hardware Painting Services Businesses, you are located in an area where a Territory is available and you desire to convert your business to an Ace Hardware Painting Services Business (a “Conversion Owner”), you may be eligible to acquire a conversion franchise, in which case you will sign a Franchise Agreement and pay a reduce Initial Franchise Fee as discussed in ITEM 5.

In certain cases where a franchisee is entering into two or more Franchise Agreements to operate multiple Ace Hardware Painting Services Businesses with adjacent Territories, or where an existing franchisee is entering into another Franchise Agreement to acquire an additional Ace Hardware Painting Services Business with a Territory adjacent to the Territory of its existing Ace Hardware Painting Services Business, we may agree to enter into a Multi-Territory Addendum to Franchise Agreements in the form attached as Attachment D hereto (a “Multi-Territory Addendum”) with that franchisee. The Multi-Territory Addendum allows for the adjacent Ace Hardware Painting Services Businesses to be operated

together with certain modifications to allow for more efficient operations, such as use of a single franchisee business entity, a single Business Location, and the appointment of a single Franchise Manager (as defined in ITEM 11).

Market and Competition

An Ace Hardware Painting Services Business currently focuses on serving residential and commercial customers in urban and suburban areas. The market for painting services is well developed. You may have to compete with other businesses, including franchised operations, national chains and independently owned companies or individuals offering painting services to residential and commercial customers. The sales of the services are not considered seasonal, although in certain areas of the U.S. cold weather may delay or suspend outdoor painting services.

Industry Specific Laws and Regulations

There are federal, state, and in some cases, local regulations pertaining specifically to the painting industry, the building and construction industry, and your franchise, which vary and can change over time. These regulations pertain to contractor licensing or registration, lead paint removal and disposal, asbestos handling and removal, and hazardous waste handling and disposal including paint and solvents. In addition, there are also worker safety laws with which you will have to comply. Among the federal regulations that are applicable to your franchise are regulations promulgated by the Environmental Protection Agency (“EPA”) and the Occupational Safety and Health Administration (“OSHA”). OSHA has issued regulations pertaining to exposure to airborne concentrations of lead above certain levels. On April 22, 2010, the EPA’s Renovation, Repair and Maintenance Final Rule (“RRP”) went into effect. This RRP details both information that must be given to certain homeowners, as well as processes and procedures that must be followed in homes and other structures built before 1978. See <https://www.epa.gov/lead/lead-renovation-repair-and-painting-program>. Many states and municipalities also have laws regulating the handling and disposal of hazardous materials, including paint and solvents, as well as laws and regulations pertaining to worker safety and health in the workplace. There are also many state and local laws, codes, or ordinances regarding contractor licensing and/or registration requirements.

You should investigate whether there are any state or local laws, regulations or requirements that may apply in the geographic area in which you intend to conduct business. You are responsible for obtaining licenses required in your locality. One source of information regarding laws and regulations is Painting and Decorating Contractors Association at www.pdca.org. You should consider both the effect of any such laws and regulations on your Ace Hardware Painting Services Business and the cost of compliance.

There are federal, state and possibly local laws covering how to classify workers, for example, whether as independent contractors or employees, or as exempt or non-exempt, for different purposes, such as tax, wage and hour laws, unemployment compensation and workers’ compensation. These laws and regulations can vary from state to state, city to city and at the federal level, and could affect, in some instances materially, the operation of your Ace Hardware Painting Services Business. You are responsible for compliance with such laws and regulations, and you should consider both the effect of any such laws and regulations on your business and the cost of compliance.

You will also need to comply with the “Lead Renovation, Repair, and Painting” rule (the “LRRP Rule”) of the U.S. Environmental Protection Agency (“EPA”). The LRRP Rule generally applies to any renovation, repair, and painting activities that may disturb paint in homes and certain other facilities constructed prior to 1978, on the basis that lead paint may be present in those facilities. Your Ace

Hardware Painting Services Business will likely be involved in these activities. To comply with the LRRP Rule, both your Ace Hardware Painting Services Business and the individual representative or representatives of your Ace Hardware Painting Services Business carrying out these activities must be certified by the EPA (the “LRRP Certification”). To obtain an LRRP Certification, the applicable representative or representatives must complete an initial training course provided or accredited by the EPA. We do not provide this training course. You must obtain the LRRP Certification for your Ace Hardware Painting Services Business and at least one individual representative prior to participating in our initial training program. Recertification and refresher training courses are required under the LRRP Rule every five years to maintain the LRRP Certification. You must maintain the LRRP Certification for your Ace Hardware Painting Services Business and at least one individual representative at all times. You must provide us with evidence of the LRRP Certification. The LRRP Rule additionally imposes certain requirements related to how the relevant renovation, repair, and painting activities are carried out, which include the distribution of a mandatory informational pamphlet to the customer, paint testing, cleaning verification, waste disposal, recordkeeping, and other requirements.

It is your responsibility to investigate the rules and regulations that apply within your Territory (as defined in ITEM 12 below) before purchasing your Ace Hardware Painting Services Business.

ITEM 2 BUSINESS EXPERIENCE

William Guzik – Director

William Guzik has been our Director since our formation on November 15, 2021. He has also been the Director of APS and APO since November 15, 2021, and the Director of AHS, AHF and AHO since September 5, 2019. He is also the Executive Vice President, Chief Financial Officer and Chief Risk Officer for Ace Hardware, positions he has held since January 2014 at the headquarters of Ace Hardware in Oak Brook, Illinois.

Andy Bell – President of APS

Andy Bell is the President of our parent, APS, a position he has held since December 31, 2021. Since its inception in 2000, Mr. Bell has also served as the Chief Executive Officer of AHS and he oversees AHF and AHO. He has previously served as a Director of AHS, AHF and AHO, positions he held from the inception of each to September 2019, and has held the positions of Chief Executive Officer or President at various times for AHF and AHO from their inception to September 2019. From September 2015 to September 2019, he served as CEO of Stair Fitter Franchising, LLC (“SFF”), a company that offered franchises for residential and commercial stair re-facing and related services. From September 2016 to 2017, he served as an advisor for Book by Owner Franchising, LLC (“BBOF”), a franchisor of resort property management businesses located in Lakewood, Colorado. Mr. Bell retains management responsibility relating to the sale and operation of franchises offered under this Disclosure Document. Mr. Bell is located in our offices in Lakewood, Colorado.

Cameron Loughlin – Founder and President

Cameron Loughlin is the founder of the Ace Hardware Painting Services System and has served as our President since December 31, 2021. He also serves as Vice President of APS and President of APO, positions he has held since December 31, 2021. He founded and served as the Director and President of MSP from its inception on November 16, 2015 to December 14, 2021. Mr. Loughlin is located in our offices in Lakewood, Colorado.

Colette Bell – Vice President, Franchise Development

Colette Bell has served as our Vice President, Franchise Development since December 31, 2021. She serves in the same position for APS. Ms. Bell also serves as the Vice President of Franchise Development for AHS and AHF, positions she has held since January 2019. From 2016 to September 2019, she was a consultant to SMB Franchise Advisors located in Philadelphia, Pennsylvania. Ms. Bell is located in our offices in Lakewood, Colorado.

Harry Oliver – Treasurer

Harry Oliver has been our Treasurer since December 31, 2021. He serves in the same position for APS and APO, positions he has held since December 31, 2021. Mr. Oliver has been employed by Ace Hardware since January 2013. He currently serves as its Corporate Vice President (since July 2020) and Treasurer (since July 2019). Mr. Oliver is located at Ace Hardware's headquarters in Oak Brook, Illinois.

ITEM 3 LITIGATION

LITIGATION INVOLVING US:

No litigation involving us is required to be disclosed in this ITEM.

LITIGATION OF OUR PARENT, ACE HARDWARE:

Concluded Actions

Ace Handyman Services, Inc. v. Ace Hardware Corporation et al., (Cause No. 2020-CI-03722, 468th Judicial District Bexar County, Texas). On February 25, 2020, Ace Handyman Services, Inc. ("Ace Handyman Services") filed a complaint and obtained a temporary restraining order against Ace Hardware, AHF, AHO and two of AHF's franchisees (collectively, the "Ace Defendants") alleging that it has superior rights in the mark "ACE HANDYMAN SERVICES" in eight counties in the San Antonio, Texas region in connection with a handyman services business. The plaintiff alleged common law trademark infringement and common law unfair competition and sought to prevent the Ace Defendants from using the name "ACE HANDYMAN SERVICES" in the eight counties. The plaintiff sought a permanent injunction, unspecified actual and exemplary damages, pre-judgment and post-judgment interest, attorneys' fees, and costs. On April 16, 2020, the parties settled this matter, whereby the Plaintiff was paid \$150,000 in consideration for AHF and its franchisees to immediately be permitted to use the ACE HANDYMAN SERVICES mark and the plaintiff's agreement to discontinue its use of ACE and ACE HANDYMAN SERVICES.

Cathay Bank v. Ace Hardware Corporation, et al. (Case No. KC069647, Superior Court of the State California, County of Los Angeles, Eastern District.) In February 2017, Cathay Bank ("Bank") obtained several money judgments against Sentron International, Inc. ("Sentron"), a former Ace Hardware vendor, in the aggregate amount of \$10,642,452, and had a receiver, Robb Evans & Associates LLC ("Receiver") appointed to liquidate Sentron's assets. In May 2017, the Bank obtained a money judgment against Smith Barnett LLC ("Smith Barnett"), also a former Ace Hardware vendor, in the amount of \$2,332,080, for successor liability, among other claims. In September 2017, the Bank and the Receiver filed a civil action against Ace Hardware and other defendants alleging that Ace Hardware made wrongful payments to Smith Barnett to purchase products belonging to Sentron in the amount of \$2,020,084, and possible

additional wrongful payments totaling \$4,352,224, which may include the \$2,020,084. The eight-count third amended complaint alleges violations of various California commercial code sections, conversion, breach of fiduciary duty, constructive fraud, involuntary and constructive trust, and tort in essence, and seeks the return of Sentron's proceeds, unspecified monetary damages, punitive damages, the imposition of a constructive trust, disgorgement and attorneys' fees. The breach of fiduciary duty count was dismissed in December 2020. On March 15, 2021, Ace Hardware filed an Amended Cross-Complaint against the Bank alleging that, in connection with its loans to Sentron, the Bank violated California's Unfair Competition Law by: (i) aiding and abetting Sentron's fraudulent business practices; and (ii) violating its internal commercial lending policies and federal banking guidelines and regulations. On May 13, 2022, the parties settled this matter in consideration for the payment of \$1.1 million to the plaintiffs, \$450,000 of which was paid by co-defendant JMI, Inc. and \$650,000 of which was paid by Ace Hardware. The plaintiffs' complaint and Ace Hardware's cross-complaint were dismissed on July 14, 2022.

Advanced Caregivers LLC d/b/a Hialeah Ace Hardware and William Bloodworth v. Ace Hardware Corporation (Case No. 51 114 00029 13 (American Arbitration Association)). On or about December 22, 2012, the Claimants (the original plaintiffs in the Florida lawsuit described below) filed a Demand for Arbitration against our parent, Ace Hardware. The Demand asserted that Ace Hardware provided fraudulent and misleading information in connection with the Claimants' decision to acquire an Ace Hardware store, and asserted claims for fraud, fraudulent inducement, violation of the Florida Franchise Act, the Florida Deceptive Trade Practices Act, and the Illinois Franchise Disclosure Act. Ace Hardware filed counterclaims for \$23,008.01 in fees that the Claimants had failed to pay, attorneys' fees and costs. On January 14, 2014, the parties settled this matter in consideration for Ace Hardware's payment of \$35,000 to the plaintiffs.

Avon Hardware Company d/b/a Avon Ace Hardware, et al. v. Ace Hardware Corporation (Case No. 2012L000362, Circuit Court of Cook County, Illinois). In January 2012, two former members and their respective owners brought a civil action against Ace Hardware alleging that Ace Hardware defrauded them in connection with their decision to become Ace Hardware members and operate two Vision 21 stores in Indiana. The ten-count complaint alleged violations of the Indiana Franchise Disclosure Act, the Illinois Consumer Fraud and Deceptive Business Practices Act, fraudulent inducement, fraud and negligent misrepresentation and sought unspecified monetary damages and attorneys' fees. Ace Hardware subsequently filed a motion to dismiss all of the plaintiffs' claims, which was granted on February 4, 2013. On March 6, 2013, the plaintiffs filed a Notice of Appeal with the First Appellate District. On October 28, 2013, the appellate court upheld the trial court's dismissal of the plaintiffs' case. On December 2, 2013, plaintiffs filed a petition for leave to appeal the dismissal to the Illinois Supreme Court. In December 2013, the parties agreed that the plaintiffs would withdraw their petition for leave to appeal in consideration for Ace Hardware's payment of \$25,000 to the plaintiffs.

Advanced Caregivers, LLC d/b/a Hialeah Ace Hardware and William Bloodworth v. Ace Hardware Corporation (Case No. 12-20082-CIV-Williams, U.S. District Court, Southern District of Florida). In January 2012, a former member of Ace Hardware and its owner brought a civil action against Ace Hardware on behalf of themselves and a putative nationwide class alleging that Ace Hardware defrauded them in connection with their decision to become an Ace Hardware member and operate a Vision 21 store in Hialeah, Florida. The three-count complaint alleged violations of the Illinois Franchise Disclosure Act, fraudulent inducement and fraud, and sought class action certification and unspecified monetary damages and attorneys' fees. On March 1, 2012, Ace Hardware filed an independent proceeding in the U.S. District Court for the Northern District of Illinois (entitled *Ace Hardware Corporation v. Advanced Caregivers LLC d/b/a Hialeah Ace Hardware and William Bloodworth*, Case No. 1:12-cv-01479) to compel arbitration of plaintiffs' claims in accordance with the arbitration

provisions in the Ace Hardware membership agreement and Ace Hardware brand agreement signed by plaintiffs. Ace Hardware also filed a motion in this action to stay it pending the resolution of the petition to compel arbitration. By Order dated March 6, 2012, Ace Hardware's motion was granted and the Florida lawsuit was stayed pending the Illinois court's ruling on our petition to compel arbitration, and by Order dated October 18, 2012, the Northern District of Illinois granted our motion to compel arbitration.

Counsel for the putative class subsequently filed numerous motions for leave to file several amended complaints which named new and additional putative class representatives, and Ace Hardware filed motions to dismiss and oppositions to the various motions to compel. Finally, the then named plaintiffs (fifteen corporate entities and seven bankruptcy trustees) and Ace Hardware attended a mediation on July 26, 2016. The plaintiffs sought \$2.5 million for a global settlement. Ace Hardware made an offer to settle with the plaintiffs for \$25,000 each, which was subsequently accepted by all of the plaintiffs. The case was subsequently dismissed with prejudice on July 27, 2017.

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

ITEM 4 BANKRUPTCY

No bankruptcy information is required to be disclosed in this ITEM.

ITEM 5 INITIAL FEES

Initial Fees

The Initial Franchise Fee for a single Ace Hardware Painting Services Business franchise is \$50,000 for a Territory size of up to 70,000 households. If your actual Territory size exceeds 70,000 households, the Initial Franchise Fee is increased \$0.50 for each additional household located in the Territory. All Territories include the businesses in the Territory.

If you acquire multiple Territories, you will sign a separate Franchise Agreement and pay the Initial Franchise Fee for each Territory you acquire.

The amount of the Initial Franchise Fee payable by you will be noted in Exhibit I to the Franchise Agreement (the "Addendum") and is due in full upon the signing of the Franchise Agreement.

Conversions

If you are a Conversion Owner, we offer a reduced Initial Franchise Fee, which is negotiated by you and us based on the years of operation of your converting business and the annual revenues generated by your converting business before conversion.

Discounts

We are a member of the International Franchise Association's VetFran initiative. If you have served as a veteran of any branch of the United States Armed Forces and received an honorable discharge, you may receive a discount of \$5,000 off of the Initial Franchise Fee for the first Franchise Agreement you sign.

General

All of the initial fees described in this ITEM 5 are fully earned by us on signing of the Franchise Agreement and are entirely non-refundable in all events.

ITEM 6 OTHER FEES

Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Royalty Fee ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁸⁾	6% of your actual Gross Revenues of the previous month, subject to annual reconciliation based on your Minimum Annual Gross Revenues requirements	Payable monthly by the 23 rd day of the month based on the prior month's Gross Revenues. <u>See</u> Note 2 below.	You must meet certain Minimum Annual Gross Revenues requirements. <u>See</u> Note 4 below and ITEM 12.
National Brand Fee ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁸⁾	2% of your actual Gross Revenues, subject to annual reconciliation based on your Minimum Annual Gross Revenues requirements	Payable monthly with the Royalty Fee based on the prior month's Gross Revenues. <u>See</u> Note 2 below.	You must meet certain Minimum Annual Gross Revenues requirements. <u>See</u> Note 4 below and ITEM 12.
Software and Internet Fees ⁽¹⁾⁽⁸⁾	Currently \$650 per month, but may be changed by us upon 30 days' notice	Payable on the 1 st of each month for that month, beginning in the first full calendar month after you commence operations.	For use of our business operations software, e-mail, location website, online marketing services, for our expenses associated with maintenance of our e-mail and Intranet sites, and for the website development, search engine optimization, and related online marketing services provided by our designated suppliers.
Minimum Individual Marketing Expenditure ⁽⁵⁾⁽⁶⁾	\$15,000 in your first year of operations, \$24,000 in your second year of operations, and \$30,000 for each subsequent year	As incurred.	You must spend a minimum amount for local marketing on an annual basis. <u>See</u> ITEM 12 for further discussions of the Minimum Annual Gross Revenues requirement.
Meeting and Convention Fees ⁽¹⁾⁽⁸⁾	-0- If you do not attend: \$1,500 per meeting	As incurred.	The additional meeting and convention requirements are discussed in ITEM 11.

Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
	If you attend but do not stay at the designated hotel or do not stay for the entire meeting or convention: \$750 per meeting		
Transfer Fee ⁽¹⁾⁽⁸⁾	\$10,000 There is no Transfer Fee for a transfer to a business entity wholly owned by franchisee, and the Transfer Fee is reduced to \$3,500 for transfers to a family member If a transfer is made prior to the second anniversary of the effective date of your Franchise Agreement, you may be charged an additional \$10,000	Before acceptance of transfer.	Payable before you transfer your franchise. You will also be required to pay additional fees to outside franchise brokers or to us if we, or our resources, find the buyer for you.
Audit Fee ⁽¹⁾⁽⁷⁾⁽⁸⁾	Cost of audit	Upon completion of audit and determination of amounts due.	You also pay the cost of the audit if audit shows an understatement of at least 2% of Gross Revenues during the audit period. Any amounts unpaid, unreported, or underreported must be paid in full, with a late fee of 18% interest per annum.
Returned Electronic Funds Transfer Fee ⁽¹⁾⁽⁸⁾	\$100	Upon notice.	This fee is imposed when an Electronic Funds Transfer transaction is not honored, in addition to any late fees and interest that may apply.
Successor Franchise (Renewal) Fee ⁽¹⁾⁽⁸⁾	\$5,500	Upon execution of successor Franchise Agreement.	If you are in good standing, you may acquire a successor franchise after your initial term.
Supplier Approval ⁽¹⁾	Currently none. However, we reserve the right to charge a fee in the future	As incurred.	If you request approval of a supplier, we may charge this fee. This only applies for those items for which we have previously designated an approved supplier.

Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Additional training ⁽¹⁾⁽⁸⁾	Our then current rate. The current rate as of the date of this Disclosure Document is \$55 per hour per person plus out-of-pocket expenses	Payable within 30 days of date of invoice.	We provide opening training for free.
Interest and late fees on late payments and/or reports ⁽¹⁾⁽⁸⁾	Not to exceed 18% per annum on all amounts owed. Also, \$75 per occurrence per late report or fee	Due upon payment of late fee or submittal of late report.	No amounts charged will exceed any legal limits or restrictions.
Costs and Attorneys' Fees ⁽¹⁾	Will vary under circumstances	As incurred.	May be payable if you do not prevail in an action based on the Franchise Agreement.
Indemnification ⁽¹⁾	Will vary under circumstances	As incurred.	You will have to reimburse us if we are held liable for claims arising from your Ace Hardware Painting Services Business.

Notes:

(1) Fees that are payable to us. All fees are non-refundable. You must maintain in a bank account from which funds can be transferred to us a minimum balance of \$4,000 against which we will withdraw funds due to us. All fees are generally imposed uniformly on all franchisees who sign our current Franchise Agreement, but we may in unique situations modify certain fees. Certain fees set forth in the current Franchise Agreement have changed from the amounts charged in the past and may change in the future. Therefore, existing and future franchisees may have fees imposed on them that are different from those represented in this table.

(2) The Royalty Fee and National Brand Fees are payable monthly. You will also report Gross Revenues through monthly, quarterly, and annual reports, and in the event of any discrepancy in the Gross Revenues previously estimated or reported and the most recent applicable report you will either be required to pay the amount of any underpayment or be granted a credit for the amount of any overpayment, which will apply to future fees due.

(3) Gross Revenues include all revenues you receive from your customers, including amounts collected for both labor and materials. Gross Revenues do not include sales or use tax or discounts you provide to your customers. Cash refunded and credit given to customers, and any receivable uncollected from customers more than 120 days after billing, may be deducted in computing Gross Revenues to the extent that the receivable was previously included in Gross Revenues on which a Royalty Fee was paid.

If you render services to a customer or otherwise recognize a sale (whether or not you have received payment from the customer), the Royalty Fee is due for the period the service was performed and completed.

If a job is partially complete at the end of a month, and it represents less than 16 hours of labor, it can be included in the next month's calculations. However, a larger job that will continue beyond this time period will need to be settled and the Gross Revenues will be recognized in each month.

You will participate in our Electronic Royalty Payment program, which authorizes us to use a pre-authorized bank transfer system. You will also participate in an electronic reporting system covering sales, operating reports and other items. We may designate and require another manner of payment from time to time in our discretion.

(4) You will be required to achieve the Minimum Annual Gross Revenues described in ITEM 12. Following the first anniversary of your commencement of operations and on each subsequent anniversary, if your actual Gross Revenues for the then completed operations year do not equal or exceed the Minimum Annual Gross Revenues, you will be required to pay us a reconciliation amount equal to amount of Royalty Fees and National Brand Fees that are due to us based on the applicable Minimum Annual Gross Revenues minus the actual Royalty Fees and National Brand Fees paid to us during the applicable operations year.

(5) You must spend \$7,500 to \$9,000 as a required start-up advertising expense in the period starting 30 days before, and continuing through the end of the second full month after, the opening of your franchise. You will pay this amount directly to our supplier conducting your start-up advertising campaign.

(6) We may require you to join a Local Advertising Group that includes franchisees in your market area. If so, you may be directed to pay all or a portion of your Minimum Individual Marketing Expenditures to the Local Advertising Group.

(7) We estimate that the cost of an audit will range from \$2,500 to \$5,000, but may be more.

(8) These payments will be made to us electronically.

ITEM 7 ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee ⁽¹⁾	\$50,000	Lump sum	At signing of Franchise Agreement	Us
Travel and living expense while training ⁽²⁾	\$2,500 - \$4,000	As incurred	As incurred during training	Airlines, hotels, restaurants, auto rental
Furnishings ⁽³⁾	\$0 - \$3,000	Will vary	As incurred	Suppliers
Tools and equipment ⁽⁴⁾	\$200 - \$800	Lump sum	At delivery	Suppliers
Computer Hardware and Software ⁽⁵⁾	\$2,250 - \$5,000	As needed	Before training and as incurred	Third Party

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Software and Internet Fees ⁽⁶⁾	\$1,950	As incurred, monthly	Monthly	Us
Call Center Expenses ⁽⁷⁾	\$1,500 to \$2,250	As incurred, monthly	Monthly	Third Party
Start-up Advertising ⁽⁸⁾	\$7,500 - \$9,000	As incurred	Varied times from pre-opening to post-opening	Suppliers
Licenses and permits ⁽⁹⁾	\$630 - \$2,500	Lump sum	At time of application	Government agencies or third parties
Insurance ⁽¹⁰⁾	\$5,000 - \$7,000	As incurred	Monthly	Insurance companies
Professional fees	\$500 - \$3,000	As incurred	As agreed	Attorneys, accountants and other consultants
Miscellaneous opening costs	\$2,000 - \$4,500	As incurred	Varied times	Suppliers, vendors
Additional Funds (3 months) ⁽¹¹⁾	\$15,000 - \$25,000	As incurred	Varied times	Suppliers, utilities, vendors
TOTAL ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾⁽¹⁵⁾	\$89,030 - \$118,000 plus any additional Initial Franchise Fee⁽¹⁾			

Unless otherwise indicated in this document, all items payable to us are non-refundable.

Notes:

(1) See ITEM 5 for discussion on the Initial Franchise Fee. The Initial Franchise Fee increases by \$0.50 for each additional household in your Territory over 70,000 households. There may be a discount available to you. If you are a Conversion Owner, the Initial Franchise Fee may be reduced for you.

(2) The initial training program is tuition-free for up to four people. However, you will pay for the expenses of attendance, including lodging, meals, transportation, and wages of trainees.

(3) You may operate your Ace Hardware Painting Services Business from your home and the chart contemplates that you will do so. Therefore, we do not include any amounts to purchase or lease an office space. However, you may incur costs to furnish your home office, which may include purchasing a desk, office chair, file cabinets, decorations, calculator and other office items.

(4) If you employ any of your painters, you will need painting supplies, such as brushes, rollers, etc., which vary from job to job and are usually disposed after each job. You will also need ladders of varying lengths and spraying equipment. The low end of this estimate assumes you already own the necessary tools. Independent contractors that you use in your Ace Hardware Painting Services Business will

typically have their own tools and equipment. You will purchase paint and paint sundries on a per job basis.

(5) Includes a computer and software meeting our minimum specifications that you purchase from suppliers selected by you. You will need a workstation, laser printer, fax software, hub-router, network, and wiring. A high-speed Internet connection is also required. If you do not already own one, you will need a smart phone or other device we approve meeting our standards and specifications. The standards and specifications we are currently utilizing are set forth in the Operations Manual.

(6) In exchange for the Software and Internet Fee, we give you access to our business operations software, e-mail, location website, and online marketing services, which includes website development services, search engine optimization, and an e-mail account for national and local use. We also maintain an Internet site for prospective customers and an Intranet site for you and other franchisees. We reserve the right to discontinue providing the e-mail account and Intranet sites, if technology advancements make these obsolete or impractical to provide. The amounts shown in the chart are for the fees for the first three months following the execution of the Franchise Agreement. We pay a portion of the Software and Internet Fee to our designated suppliers for website development services, search engine optimization, and other online marketing services. These services do not include paid, placed media advertising, which is an additional expense paid to the vendor directly by you.

(7) You will employ a third party call center service company to provide customer service for you. The chart shows the estimate of the first three months of fees due to the third party vendor.

(8) You must spend a minimum of \$7,500 and a maximum of \$9,000 as a required Start-up Advertising expense in the period starting 30 days before opening, and continuing through the end of the second full month after opening of your franchise. This amount includes collateral marketing materials that will last for a period of time beyond the first three months of operation and are purchased in quantities based on price considerations.

(9) Licensing laws and permit requirements, including fees, may vary from state to state and from city to city, depending on state and local laws. You must comply with these laws. This estimate also includes the costs associated with obtaining the required LRRP Certification for your Ace Hardware Painting Services Business and one individual representative, including the estimated costs for the required training course provided by the EPA or a third party.

(10) You must procure, maintain and provide evidence of (i) if you employ one or more employees, workers' compensation insurance with employers liability coverage, with a broad form all-states endorsement coverage sufficient to meet the requirements of law; (ii) comprehensive general liability insurance including product liability, property damage, personal injury liability, bodily injury coverage, and premises/operation liability for the Business Location and its operations, with a limit of not less than \$1 million per occurrence and \$2 million in the aggregate, or such greater limit as may be required as part of any lease agreement for the Business Location; with a crime policy endorsement with a limit of not less than \$25,000; (iii) if you own or lease one or more vehicles used in connection with the operation of your Ace Hardware Painting Business, comprehensive automobile liability insurance including hired and non-owned coverage with a limit of not less than \$1 million per occurrence and \$2 million in the aggregate; (iv) umbrella commercial excess coverage with a limit of not less than \$1 million; and (v) all-risk property insurance covering the personal property owned or leased by you in an amount equal to at least 100 percent of the replacement costs, less a reasonable deductible which cannot exceed \$5,000. Cyber liability insurance in an amount of not less than \$250,000 is optional but highly recommended. We

reserve the right to require that you obtain and maintain, in addition to all other policies of insurance, employment practices insurance in such amount as we specify. All of the required policies of insurance must name us as an additional insured with waiver of subrogation and must provide for a 10 day advance written notice to us of cancellation. Prior to opening your Ace Hardware Painting Services Business, and within 15 days after each successor franchise term begins, you must provide us with a certificate of insurance as to the insurance coverage maintained.

(11) The disclosure laws require us to include this estimate of all expenses to operate your Ace Hardware Painting Services Business during the “initial period” of the business, which is defined as three months or a longer period if “reasonable for the industry.” We are not aware of any established longer “reasonable period,” so our disclosures cover an estimate of start-up expenses for an initial three-month period. These expenses do not include your living expenses or expenses if you decide to employ assistants.

(12) The estimated initial investment set forth in this table assumes that you will acquire the franchise rights for one Ace Hardware Painting Services Business with a Territory of 70,000 households. If you acquire more than one Ace Hardware Painting Services Business, your estimated initial investment will increase.

(13) The chart contains estimates only and we cannot guarantee that you will not have additional expenses starting your business. Your actual expenses may exceed our estimates. The information in the chart is not intended to imply that your Ace Hardware Painting Services Business will reach the breakeven point or any other financial goal by that time. We recommend that you have (or have access to) additional startup capital beyond the amounts shown in the table above.

(14) We relied on over 50 years of combined experience of certain officers of the company in the painting industry and general business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

(15) No payments to us are refundable. Payments to third parties may or may not be refundable depending on your agreement with such third parties; however, usually such payments are nonrefundable.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Operations

You will establish and operate your Ace Hardware Painting Services Business in compliance with your Franchise Agreement, and with the standards and specifications contained in an Operations Manual that we make available to you (the “Operations Manual”). The Operations Manual is designed to protect our reputation and the goodwill of the Marks, it is not designed to control the day-to-day operations of your Ace Hardware Painting Services Business.

You will use our business operations software, which we grant you access to in exchange for your payment of the Software and Internet Fee. Our third party designated vendor is the supplier of this software. You will also obtain website development services, search engine optimization, and other online marketing services from our designated suppliers, which are independent third parties. We currently bill you for these required services by charging the Software and Internet Fee, and pay the suppliers on your behalf.

If you do not already have it, you will need to obtain computer hardware and software that meets our minimum specifications. You will also need a smart phone or other device approved by us that meets our minimum specifications for receiving and sending e-mails remotely, unless you already own one you will use in the Ace Hardware Painting Services Business. You are required to answer your Ace Hardware Painting Services Business' phone during regular business hours by a live person, which may be an answering service.

Approved Suppliers

Ace Hardware and its network of retailers (collectively, the "Ace Suppliers"), some of whom are owned by Ace Hardware, are approved suppliers of certain goods, materials, supplies, fixtures, equipment, and inventory, including paint and paint supplies, used in your Ace Hardware Painting Services Business. If an Ace Supplier is located in or near your Territory, you are required to purchase all materials, supplies and goods needed to run your Ace Hardware Painting Services Business from an Ace Supplier, but only when the items are in stock or readily available and competitively priced. This includes all of your liquid paint needs. Most Ace Suppliers carry both Ace private label and Benjamin Moore® paints. You are required to use Ace private label or Benjamin Moore® paint unless a customer requires you to use a different brand of paint.

We currently do not have approved suppliers of other items, such as office supplies, you may need for your Ace Hardware Painting Services Business. However, we may in the future require you to purchase certain goods, services, supplies, fixtures, equipment, and inventory used in your Ace Hardware Painting Services Business from other approved suppliers. If we do require you to purchase any other goods and services from only approved or designated suppliers, we will advise you of those suppliers.

Once we designate a particular supplier for a particular product or service, if you want to utilize similar materials or services in your Ace Hardware Painting Services Business from a supplier that has not previously been approved by us, you will need to first obtain our approval.

We do not have written criteria for supplier approval, and therefore written criteria are not provided to our franchisees. However, we may require that you submit specifications, information or samples of the items for our review to determine if they meet our specifications and standards set forth in the Operations Manual as to quality, content, composition and service. We will advise you within 30 days after we receive the required information whether the items or proposed suppliers meet our specifications. We do not currently require that a fee be paid to us to secure supplier approval; however, we may require a fee in the future, and in our discretion, we may require the supplier to reimburse us for any expenses we incur in determining if the supplier meets our specifications and standards. We may revoke our approval of any supplier previously approved by written notice to the supplier and each licensee using that supplier.

Ace is one of our approved suppliers and you are required to purchase certain goods and services from the Ace Suppliers for your Ace Hardware Painting Services Business. Otherwise, neither we nor any affiliate of ours is currently an approved supplier for any goods or services for your Ace Hardware Painting Services Business, although we reserve the right to designate ourselves or other affiliates as approved suppliers for certain goods or services in the future.

Additional Information

We may derive revenue from purchases or leases of inventory and equipment from any approved supplier of ours on account of their dealings with you and other franchisees. Since we began franchising in 2022, we and our affiliates did not derive any revenues based on sales of any products or services to our

franchisees during the year 2021. We do not derive revenues from real estate leases. No officer of ours owns any interest in any of our approved suppliers.

We estimate that the cost of your purchases of materials meeting our specifications will represent approximately 8 to 15 percent of your total purchases in establishing your franchise. We estimate that purchases in accordance with our standards and specifications will comprise 80 to 90 percent of the product purchase requirements for the ongoing operations of an Ace Hardware Painting Services Business.

We currently do not privately label any products, but we reserve the right to do so in the future.

Other than the purchasing arrangement with the Ace Suppliers, we do not currently, but reserve the right in the future to, negotiate purchase arrangements with suppliers, including preferred pricing arrangements, for the benefit of our franchisees. Further, we do not currently, but reserve the right in the future to, receive payments from approved suppliers with respect to your purchases.

Except as is described in this ITEM 8, you do not receive a material benefit from us based on your use of any particular designated or approved sources or your purchase of particular products or services.

ITEM 9 FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Section 4.1	ITEM 7 and 11
b. Pre-opening purchases/leases	Sections 7.1 and 11.1	ITEMS 7, 8 and 11
c. Site development and other pre-opening requirements	Article 7	ITEMS 6, 7 and 11
d. Initial and ongoing training	Article 6	ITEM 11
e. Opening	Section 7.3	ITEM 11
f. Fees	Articles 5 and 12, Section 13.5	ITEMS 5 and 6
g. Compliance with standards and policies/Operations Manual	Article 9 and Section 11.1	ITEM 1 and 11
h. Trademarks and proprietary information	Article 15 and Sections 18.6 and 20.4	ITEMS 13 and 14
i. Restrictions on products/services offered	Sections 11.1, 14.2, 18.2 and 20.1	ITEMS 8 and 16
j. Warranty and customer service requirements	Section 11.1	ITEM 11
k. Territorial development and sales quotas	Article 4 and Section 12.4	ITEMS 11 and 12

Obligation		Section in Agreement	Disclosure Document Item
l.	Ongoing product/service purchases	Sections 11.1 and 14.2	ITEMS 8 and 16
m.	Maintenance, appearance and remodeling requirements	Section 11.1	ITEM 7
n.	Insurance	Article 21	ITEM 7
o.	Advertising	Article 13 and Section 12.2	ITEM 11
p.	Indemnification	Section 19.3	ITEM 6
q.	Owners participation/management/staffing	Section 11.1	ITEM 15
r.	Records and reports	Article 16 and Section 18.1	ITEMS 6 and 17
s.	Inspection and audits	Section 16.3	ITEM 6
t.	Transfer	Article 17	ITEM 17
u.	Renewal	Sections 3.3 and 3.4	ITEM 17
v.	Post-termination obligations	Sections 18.6, 18.7, 18.8, 18.9, 20.2, 20.3, 20.4 and 20.5	ITEM 17
w.	Non-competition covenants	Article 20	ITEM 17
x.	Dispute resolution	Article 22	ITEM 17
y.	Guaranty by Owners and Other Individuals	Sections 11.1 and 11.2, and <u>Exhibit III</u>	ITEM 15

ITEM 10 FINANCING

Neither we nor any affiliate or parent of ours offers direct or indirect financing to franchisees. Neither we nor any affiliate or parent of ours guarantees any notes, leases or other obligations of our franchisees.

ITEM 11 FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

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

Pre-Opening Assistance

Before you open your business, we or our designee will:
(Section 8.1 of Franchise Agreement (“FA”) unless otherwise noted)

1. Designate your protected Territory.
2. Provide you access to our business operations software, an Internet site for prospective customers, an e-mail account and an Intranet site for you and other franchisees.

3. Provide you with the specifications of all initial and replacement equipment, inventory and supplies required for the operation of your Ace Hardware Painting Services Business, all as specified in the Operations Manual, and a list of all approved suppliers of any services, equipment, inventory or supplies that we require you use.

4. Provide you with pre-opening and opening activities, including during the first several weeks of operation of your Ace Hardware Painting Services Business. These activities will include providing you with a list of information about tasks you need to complete to establish your business, assisting you in completing those tasks and assigning a field support TEAM member to begin assisting you with completion of the startup list.

5. Provide you with a copy of our proprietary project management start-up program, which includes proprietary and confidential guidance and resources for setting up an Ace Hardware Painting Services Business, insurance resources, and approved supplier information.

6. Make available to you during the term of your Franchise Agreement one copy of our confidential Operations Manual, which may be provided electronically to you and which contains mandatory and suggested specifications, standards, operating procedures and rules, arts and graphics for advertising, and required product and service warranties. (Section 9.3 of FA.)

7. Within 90 days of you signing the Franchise Agreement, train you and up to three other people during a required five business day initial training program, which may be conducted in-person or virtually via video conference. We may waive or modify the required initial business training program in our sole discretion.

We do not provide the above services to renewal franchisees and certain of the services to Conversion Owners.

Continuing Assistance

During the operation of your Ace Hardware Painting Services Business, we or our designee will:
(Section 10.1 of FA unless otherwise noted)

1. Within the first 60 days of operation of your Ace Hardware Painting Services Business, provide to you approximately 35 to 38 hours (over four or five business days) of on-site training at your Business Location.

2. Research new products, services and methods of doing business and provide you with information concerning developments of this research.

3. Make ourselves available to you on a reasonable basis via telephone, text, and e-mail during our regular business hours to discuss your operational questions and experiences.

4. Provide regular communications on current best practices through telephone calls, webinars, video conferences, e-mail and other electronic communications, internal blogs, and other means.

5. Hold annual conferences to discuss sales techniques, new product developments, new service suggestions, accounting, inventory control, performance standards, advertising programs,

merchandising procedures and other topics deemed relevant by us. We may require you to attend these conferences. (Section 6.4 of FA.)

6. Send to you and to customers periodic online newsletters that we produce from time to time.

7. At our discretion, conduct additional training programs at a location agreed upon by you and us, or virtually via video conference. (Section 6.4 of FA.)

8. Make available to you marketing programs, advertising designs, advertising campaigns, and camera-ready artwork. We may charge you for these materials. (Sections 10.1 and 13.1 of FA.)

9. Assist in local market research and provide guidance and assistance to you in recommending the prices to be charged by you for the services and products provided by you. Unless prohibited by applicable law, we may periodically set a maximum, minimum, or set price that you may advertise and charge for services and products offered by your Ace Hardware Painting Services Business. If we establish a maximum price for any services or products, you shall not offer or sell those services or products at any greater price. If we establish a minimum price for any services or products, you shall not offer or sell those services or products at any lesser price. If we establish a set price for any services or products, you shall offer or sell those services or products only at that price. If we do not establish pricing limits, we may establish suggested prices. In that case, any prices that we recommend to you are merely recommendations and you may establish your own prices, which may be higher or lower than our recommended prices. You must abide by our advertising policies related to advertising prices.

10. Provide you access to our business operations software and all upgrades, an e-mail account, an Internet site for prospective customers, and an Intranet site for you and other franchisees, and to social media accounts for your Ace Hardware Painting Services Business that we deem relevant for the brand. We reserve the right to discontinue providing the e-mail account and Intranet site if technology advancements or solutions make these obsolete or impractical to provide, or take the place of these tools. You may not create, have or use any other social media accounts related to your Ace Hardware Painting Services Business other than the ones we provide.

11. Provide you with a list of approved third party call centers available to provide customer services for your Ace Hardware Painting Services Business.

12. Assist with your start-up advertising campaign. (Section 13.2 of FA.)

13. Permit you to use our Marks in accordance with our specifications. (Sections 2.1 and 15.1 of FA.)

14. Permit you to use the Ace Hardware Painting Services System, as it may be modified. (Sections 2.1 and 15.3 of FA.)

Advertising

Local Advertising

At your initial training, we will provide you with a suggested marketing plan, marketing materials, advertising designs, advertising campaigns, camera-ready artwork, and budgeting templates and discuss the budgeting, execution, and maintenance of your marketing program.

For your start-up advertising activities, you must spend between \$7,500 and \$9,000 in the period starting 30 days before opening, and continuing through the end of the second full month after opening of your franchise. You will pay this amount to the vendors who will assist you in developing and running your start-up advertising activities.

Beginning with the third full month of operation of your Ace Hardware Painting Services Business through the end of your first Contract Year, you must spend at least \$15,000, increasing to \$24,000 for your second Contract Year, and \$30,000 for each Contract Year thereafter as your Minimum Individual Marketing Expenditure. These amounts are in addition to the National Brand Fee that you will pay to us. We will review your spend amounts each six months and if you are not on pace to meet or exceed the required Minimum Individual Marketing Expenditure, you must increase your Minimum Individual Marketing Expenditure for the second six months of the applicable 12-month period to meet the required annual Minimum Individual Marketing Expenditure.

We may designate required or recommended media or advertising agencies or other vendors for certain types of marketing for your Ace Hardware Painting Services Business at our discretion. Expenditures on online marketing services and products acquired through a third party vendor shall count toward this Minimum Individual Marketing Expenditure.

If you execute a Multi-Territory Addendum for the operation of multiple Ace Hardware Painting Services Businesses in adjacent territories, that Multi-Territory Addendum will specify a combined Minimum Individual Marketing Expenditure amount that will apply to those Ace Hardware Painting Services Businesses and territories as a whole.

To protect the standards of the Ace Hardware Painting Services System and brand, before using any promotional and advertising materials, you are required to submit to us or to our designated agency, for our prior written approval, all information pertaining to promotional materials and advertising initiated by you, including written advertisements, radio and television scripts, Internet sites, social media advertising, or any promotional creative materials. If we do not give you our written approval or disapproval of any advertising and promotional material submitted to us by you within seven business days from the date the information is received by us, the materials will be deemed approved as submitted. You may only use gift certificates that have been approved by us.

You will submit to us a local advertising and marketing expenditure report accurately reflecting expenditures, in a form and by methods as required by us in the Operations Manual or otherwise.

In all advertising and promotional materials, you must display your business name only in obvious conjunction with the phrase, “Locally Owned and Independently Operated Franchise of Ace Painting Franchising, LLC” or similar statement approved by us.

Local Advertising Groups

We may require you to join a Local Advertising Group that includes other franchisees in your market area. If so, we may direct you to pay all or part of your Minimum Individual Marketing Expenditure to the Local Advertising Group. The membership, rules and regulations of a Local Advertising Group, including how advertising fees are to be spent, will be determined by the Local Advertising Group’s member franchisees, but must be approved in advance by us. The Local Advertising Group must operate based on written governing documents, and those documents will be available for review by franchisees. A Local Advertising Group must provide quarterly financial reports to us, and those reports will be

available for review by franchisees at our headquarters. We can require Local Advertising Groups to be changed, dissolved or merged. If a Local Advertising Group is established in a market area, all company-owned Ace Hardware Painting Services Businesses operating in that market area, if any, will contribute to the Local Advertising Group on the same basis as franchisees.

National Fund

We have established the Ace Hardware Painting Services National Brand Fund (the “National Fund”). You must pay 2 percent of your Gross Revenues, (subject to any adjustment based on you not meeting your required Minimum Annual Gross Revenues as discussed in ITEM 12) to the National Fund (the “National Brand Fee”). Unless we direct otherwise, the National Brand Fee is payable with the Royalty Fee on the 23rd day of each month based on the prior month’s Gross Revenues. Payments into the National Fund are in addition to your Minimum Individual Marketing Expenditure requirements.

The creation of advertising materials and provision of other advertising and marketing services will be provided to you through the National Fund. We may occasionally place advertising for the entire Ace Hardware Painting Services System through the National Fund. We reserve the right to use brand fees from the National Fund to place advertising in regional or national media (including broadcast, print, Internet or other media). The National Fund will be used to promote the services and products sold by franchisees and company-owned operations and to provide media placement for the national recruitment of painters. It will not be used to sell additional franchises, except as stated below. (See Section 13.5 of FA.)

We may use outside advertising and marketing agencies to create advertising material.

We may charge you the costs of any marketing materials we produce or print for our franchisees. In that event, you must pay us upon receipt for all marketing materials purchased from us unless we agree to different terms. We have never charged for marketing materials we produced or printed for our franchisees in the past.

We may require that you include a brief statement in your advertising that Ace Hardware Painting Services Business franchise locations are available and the contact information for acquiring Ace Hardware Painting Services Businesses, and we may include this type of statement in any advertising developed by the National Fund.

All company-owned Ace Hardware Painting Services Business locations, if any, will contribute to the National Fund on the same basis as franchisees. All payments to the National Fund will be spent on advertising, promotion and marketing of goods and services provided by us. We cannot ensure that you or any franchisee will benefit directly or on a prorata basis from placement of advertising through the National Fund.

The National Fund will not be required to operate under written governing documents. Our accounting and marketing personnel will administer the National Fund, and a portion of the salaries of those employees may be paid by the National Fund.

The National Fund will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for any accounting and marketing personnel salaries, administrative costs, overhead and other expenses we may reasonably incur in activities related to the National Fund and its programs (including conducting marketing research, preparing advertising and marketing materials, insurance, legal costs and collecting and accounting for the National Fund, as well as

protecting the brand in any closed markets). In any event, we may charge the National Fund for attorney's fees and other costs related in any way to our defense of any claims against us regarding the National Fund (including our management of the National Fund) or regarding collecting amounts due and/or expenditures by or from the National Fund. We may, in our sole discretion, spend in any fiscal year an amount greater or less than the aggregate contributions to the National Fund in that year and the National Fund may borrow from us or other lenders to cover deficits of the National Fund or cause the National Fund to invest any surplus for future use by the National Fund. We will have the right, but not the obligation, to cause the National Fund to be incorporated or operated through an entity separate from us as we deem appropriate, and any successor entity will have all rights and duties of ours relating to the National Fund.

We may remit a portion of National Fund contributions back to one or more franchisees on any terms and conditions we determine in our sole discretion, including reimbursement of local advertising expenditures made by a franchisee. We may waive and/or compromise claims for contributions to, and/or claims against or with respect to, the National Fund in our sole discretion, using the National Fund to pay any of these claims. We will have sole discretion as to whether or not we take legal or other action against any franchisee who is in default of his, her or its obligations concerning the National Fund (including obligations to make contributions) and whether a franchisee may be allowed to make direct advertising expenditures in place of contributions to the National Fund.

Since we began franchising in 2022, no National Brand Fees were collected and the National Fund was not operated in 2021.

We do not currently intend to have the National Fund audited. An accounting of advertising expenditures will be available for review by you at our headquarters, and an annual unaudited financial statement of the National Fund will be available to you upon request.

Franchisee Advisory Council

We may establish a Franchisee Advisory Council in the future, which, if established, would serve to assist us in determining how to operate the National Fund and other advertising matters. We have not established any requirements regarding a Franchisee Advisory Council. If we form a Franchisee Advisory Council, we reserve the right to terminate it or to modify its purposes, in our sole discretion.

Computer Requirements

We provide you access to our business operations software upon payment of your Initial Franchise Fee. Our business operations software will track your customers, schedule service calls, dispatch painting crews, provide information to the customer about the projects, provide mobile access to job information to the painters (such as photos and notes), solicit and syndicate customer reviews, track customer service, and generate invoices and financial, marketing and sales reports and collect payment in the field, all that conform to our standards to maintain consistent business applications in accordance with the Ace Hardware Painting Services System.

We maintain an Internet site for prospective customers, which will also include information for prospective franchisees regarding purchasing an Ace Hardware Painting Services Business franchise. You may not use or own any other Internet sites related to the painting business. We also maintain an Intranet site for you and other franchisees. We will grant you access to that Intranet site, which you must use in accordance with our specifications and the Ace Hardware Painting Services System. We reserve the right to discontinue providing the Intranet site at any time in our sole discretion.

We will provide an e-mail account to you. You are required to use only the e-mail account provided by us in the operation of your Ace Hardware Painting Services Business. You may not use the e-mail account for any purpose not related to the operation of your Ace Hardware Painting Services Business. You are required to check this e-mail account throughout the business day and to respond to any e-mail messages promptly. We reserve the right to discontinue providing this e-mail account in the future, in which event you will be required to maintain an e-mail account to be used in the operation of your Ace Hardware Painting Services Business. We also reserve the right to discontinue providing the e-mail account and Intranet sites, if technology advancements make these obsolete or impractical to provide. You must pay us the Software and Internet Fee of \$500 per month for the business operations software, e-mail, location website, website, and online marketing services, which includes an e-mail account for national and local use. If you are operating multiple Ace Hardware Painting Services Businesses in adjacent territories, we may agree to allow you to pay a single Software and Internet Fee for those Ace Hardware Painting Services Businesses, pursuant to the terms of the Multi-Territory Addendum, in which case you may receive a single e-mail account for the covered Ace Hardware Painting Services Businesses.

You must obtain website development, search engine optimization, and related online marketing services from our designated supplier(s). We bill you for these services as part of the Software and Internet Fee, and we pay the designated supplier(s) for you. These services do not include paid, placed media advertising, which is an additional expense paid to the vendor directly by you.

If you do not already have it, you will need to acquire computer hardware and software that meets our minimum specifications, as stated in the Operations Manual. As of the date of this Disclosure Document, our minimum specifications are as follows: a PC computer running a Windows 10 or higher operating system, and a high-speed Internet connection, with the Microsoft Office suite standard and QuickBooks online version software. We have the right to periodically change our standards. The computer will be used to operate the required software programs and store the data used in that software.

You will need a smart phone or another device approved by us that meets our minimum specifications, for receiving and sending e-mails remotely. As of the date of this Disclosure Document, our minimum specifications are that the mobile device be (i) able to remain on throughout the working day, (ii) portable so that it may be taken to job sites and throughout the Territory, and (iii) capable of accessing, sending and receiving e-mail. We may change those specifications on notice to you.

The estimated cost of purchasing the required computer hardware, software and office equipment including the mobile device for receiving and sending e-mails, but not including the Software and Internet Fee described above, ranges from \$2,250 to \$5,000.

You must keep your computer hardware and software up to date and purchase platform and/or operating software upgrades as we direct and which meet our specifications as they evolve over time. In some cases, these systems and software may only be available through us, our affiliates and/or designated suppliers. We reserve the right to charge service and development fees to cover the costs of meeting the evolving technology needs of the Ace Hardware Painting Services System. We also may require you to purchase new or additional computer hardware or software from us or from third parties as may be necessary to support the technology utilized now or in the future by the Ace Hardware Painting Services System. The annual cost of any optional or required maintenance, updating, upgrading or support for the computer hardware and software will vary. We, our affiliates and our designated suppliers have no obligation under the Franchise Agreement to provide ongoing maintenance, repairs, upgrades or updates to your computer hardware and software. As of the date of this Disclosure Document, we do not have

independent access to your computer system; however, no contractual restrictions exist concerning our ability to require you to give us independent access in the future.

You must also have a laser printer. All equipment and software must comply with our standards and specifications.

You must accept credit and debit cards from customers of your Ace Hardware Painting Services Business. You may not charge your customers any additional fees or service charges if they elect to pay by credit or debit card. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit or debit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, you must be PCI compliant by following and adhering to the then-current PCI DSS, currently found at www.pcisecuritystandards.org, or any similar or subsequent standard for the protection of cardholder data throughout the term of your Franchise Agreement. PCI mandates the PCI DSS compliance. You will share certain personal information of your customers with AHF and in connection therewith, will enter into the AHF Data Collection Agreement attached to this Disclosure Document as Attachment M.

Site Selection

You may operate from your home or operate from a small office outside of your home as long as your home-based office meets the general guidelines of the Internal Revenue Service. If you choose to operate from an office outside of your home, you are responsible for selecting and acquiring the premises for your Business Location. We do not locate or negotiate the lease or purchase of a site for you. You must obtain our prior written consent for any Business Location outside of your home. Currently, our only requirement is that an office located outside of your home must be located in your Territory unless you have multiple adjacent Territories and have signed a Multi-Territory Addendum with us, in which case your office must be located in one of your Territories. We reserve the right to establish standards for your Business Location, and once those standards are established, you must comply with our standards no later than 30 days after written notice to you.

Time for Commencement of Operations

The time that will elapse between the signing of a Franchise Agreement and the opening of your franchise business is typically 120 days. The actual time that elapses will vary depending upon individual circumstances and local conditions, such as (1) your ability to obtain any permits or licenses required by your state and local governments; (2) your ability to obtain your equipment and fixtures, and (3) when you complete your pre-opening study and initial training. In the event that you cannot keep pace with the timeline of tasks required for pre-opening study, your opening may be delayed. Consideration will be given to the other franchise owners that are in the process of opening their Ace Hardware Painting Services Businesses in determining the rescheduling of your opening. The Franchise Agreement requires that you begin operations of your Ace Hardware Painting Services Business within 120 days after you, or a fully trained and qualified operations manager designated by you in writing to manage the Ace Hardware Painting Services Business on your behalf (the “Franchise Manager”), completes the initial training program. If extenuating circumstances exist, such as a delay in your ability to obtain a lease for your business or you have incurred a serious illness, we may (in our sole discretion) agree to extend that time period for an additional amount of time we determine. Otherwise, we may terminate your Franchise Agreement for your failure to begin operations of your Ace Hardware Painting Services Business within that time period.

Training

Prior to attending our initial business training program, you will undergo approximately eight weeks of pre-training work and study.

Once you have completed your pre-training work and study, we will provide an initial business training program to be conducted at our corporate headquarters in the Denver, Colorado metropolitan area, or another location designated by us, or via a video conferencing system. The initial business training program lasts approximately five business days. The actual length of your training program and your training schedule may be adjusted by us based on your prior experience or training. We conduct our initial business training program on an as-needed basis, but typically not less than seven times per year.

Training is supervised by our President, Cameron Loughlin. Mr. Loughlin has over seven years of experience with us, our affiliate and our predecessor, and more than six years of experience in the field. Each of our instructors has demonstrated to us satisfactory knowledge of the topics they instruct and are overseen and reviewed by Mr. Loughlin.

The Operations Manual is the main source of instructional material. The initial business training program will be conducted within 90 days after execution of the Franchise Agreement, unless otherwise agreed by you and us, and prior to the commencement of operation of your Ace Hardware Painting Services Business. You or your Franchise Manager must obtain the LRRP Certification for your Ace Hardware Painting Services Business prior to participating in our initial business training program, regardless of your intentions to complete projects where you may encounter lead paint.

Yourself, or, if applicable, your Franchise Manager, plus up to three other individuals designated by you (for a total of four individuals), are eligible to participate in our initial business training program without a tuition charge. You or your Franchise Manager must successfully complete our initial business training program prior to the commencement of operations of your Ace Hardware Painting Services Business.

You will be responsible for the transportation and living expenses of each person who you designate to attend the initial business training program.

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TRAINING PROGRAM

Pre-Opening Study

The subjects covered in the pre-opening study program and the general times devoted to each subject are described below. However, the program may be modified, at our discretion, to meet the needs of any individual trainee.

PRE-OPENING STUDY PROGRAM AGENDA

Subject Type	Hours of Guided Training	Hours of Self-Guided Study	Hours of Research, Preplanning & Setup
Business Establishment, Licensing, & Professional Advisors	0	0	35-40
Establish Key Vendors & Office Space	0	0	25-30
Finance, Banking, & Credit	1	0	25-30
Employees & HR	7-10	4-6	3-4
Accounting & Insurance setup	1	1-3	10-12
Marketing & Networking	4-6	0	25-30
Software & Technology Tools	2	0	2
Market Research	1	0	3-4
Totals	16-21	5-9	128-152

Initial Business Training

The subjects covered in the initial business training program and the general times devoted to each subject are described below. However, the program may be modified, at our discretion, to meet the needs of any individual trainee.

INITIAL BUSINESS TRAINING PROGRAM AGENDA

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location*
Introduction and Orientation	1-2	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us
History, Mission, and Brand	1-2	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Franchisor/Franchisee Relations	1-2	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location*
Start-up and Daily Operations	1	5-8	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Brand, Culture, & Service Path (Customer Service)	1-2	5-6	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Employee/Painting Crew Hiring & Retention	1-2	4-5	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Technology Tools and Business Operations Software	1-2	5-6	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Accounting & Software	2-3	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Advertising and Marketing	4	1	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Corporate Communications	1	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us
Week-in-Review, Testing	6-8	0	Denver, Colorado Metropolitan Area or Another Location Designated by Us
TOTALS	20-29	20-26	

* The initial training program is typically conducted at or near our Support Center headquarters in the Denver, Colorado metropolitan area. We may conduct any of the initial business training virtually via a video conferencing system.

If, whether as a result of observations, test results or otherwise during or upon completion of initial business training (including during operation of your Ace Hardware Painting Services Business) we determine that it is appropriate or necessary, we can require that you (or a managing partner or shareholder consented to by us) or your Franchise Manager re-attend and successfully complete the initial business training program, at your sole cost and expense.

On-Site Training

Within the first 60 days of operations of your Ace Hardware Painting Services Business, we will conduct on-site training at your Business Location. At our discretion, we may divide the on-site training program into two separate training programs to be held at two different times at your Business Location. We require you or your Franchise Manager, as applicable, attend and successfully complete this on-site training program. Other employees of yours may attend this on-site training as well. The on-site training program lasts approximately four to five business days. There will be no fee for this on-site training program.

The subjects covered in the on-site training program and the general time devoted to each subject is described below. However, the program may be modified, in our discretion, to meet the needs of any individual trainee.

ON-SITE TRAINING PROGRAM AGENDA

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Brand, Culture, & Service Path (Customer Service)	0	1-2	Your Business Location
Employee/Painting Crew Hiring & Retention	0	6-8	Your Business Location
Technology Tools and Business Operations Software	0	3-4	Your Business Location
Accounting & Software	0	2-3	Your Business Location
Advertising & Marketing	0	1	Your Business Location
Commercial Credit Accounts	0	1	Your Business Location
Corporate Communications	0	1	Your Business Location
Operational Overview	0	1-2	Your Business Location
Daily Operations	0	14-15	Your Business Location
Local Ace Integration Training	0	2-3	Your Business Location
Residential Sales & Marketing	0	3-4	Your Business Location
Commercial Business Opportunities	0	1-2	Your Business Location
Totals	0	36-46	

Additional Training

If we determine that you, your Franchise Manager or other representatives require training in addition to the initial business training program and on-site training, or if you request additional training, then we will provide notice to you of the additional training and conduct the additional training program at a location we designate or virtually. You will be responsible for paying the travel, lodging and other costs for you, your Franchise Manager, or your other representatives, and you will be required to pay us our standard fees for conducting additional training in accordance with our then current fee schedule.

The marketplace is ever-changing and continuous education is crucial. Therefore, we may present seminars, national or regional conventions, continuing development programs, other additional or refresher training programs, or other meetings, which may be conducted in-person or virtually via a video conferencing system. Some of these are voluntary and your attendance is not required. However, you (or a managing partner, member or shareholder consented to by us) or your Franchise Manager, as applicable, must attend any mandatory seminars, programs or meetings we conduct. The mandatory additional training will not last more than three days at a time. You or your Franchise Manager must attend one regional meeting for your region and our annual national convention each year if we hold these meetings. You or your Franchise Manager may also be required to attend up to one additional mandatory

convention or meeting every 24 months, in addition to any mandatory regional meetings for your region and the annual national convention. We will give you at least 30 days prior written notice of any seminar, convention, program or meeting that is deemed mandatory, unless your attendance is waived by us. (See Section 6.4 of Franchise Agreement.)

We do not charge a fee or costs for attendance at any mandatory seminar, national or regional convention or other mandatory meetings. However, unless we agree otherwise, if you do not attend the applicable seminar, convention or other mandatory meeting, you will be required to pay us \$1,500 per missed event, and if you attend the applicable seminar, convention or other mandatory meeting but do not stay at the designated hotel or do not stay for the entire meeting or convention, you will pay us \$750 per applicable event. You will be responsible for the cost of attending, including travel, meals and lodging expenses any seminars, national or regional conventions, continuing development programs, other additional or refresher training programs, or other meetings. If you or your Franchise Manager fails to attend a program at which attendance is deemed mandatory, we may, without waiving any other rights, require you or your Franchise Manager to attend and complete a make-up or alternative program at a location determined by us and you will be responsible the costs of the program. (See Section 6.4 of Franchise Agreement.)

All training programs are provided to protect our brand and the Marks and not to control the day-to-day operation of your Ace Hardware Painting Services Business.

Operations Manual

Our Operations Manual is maintained electronically and made available to you online. The table of contents of our Operations Manual is set forth in Attachment G. If the Operations Manual was printed, we estimate it would consist of approximately 125 total pages.

ITEM 12 TERRITORY

Territory and Business Location

You will receive a designated protected territory (the “Territory”). As long as you are not in default of your Franchise Agreement, we will not operate, or permit another franchisee to operate, within your Territory.

Your Territory will be determined by you and us before you sign your Franchise Agreement and will be set forth in the Addendum to your Franchise Agreement. The size and configuration of your Territory is based on the number of households. It will include all commercial properties located in the Territory. The geographic boundaries of your Territory are set by natural and artificial boundaries and town lines, principally zip codes.

You will operate your Ace Hardware Painting Services Business from an office (“Business Location”), which may be located in your or your Principal Representative’s or Franchise Manager’s residence, as long as the home-based office meets the general guidelines of the Internal Revenue Service. The Business Location must be centrally located in the Territory and meet our current standards. If you elect to have an office outside of your or your Principal Representative’s or Franchise Manager’s residence, you are solely responsible for selecting and acquiring the premises for your Business Location. You must obtain our prior written consent to the Business Location. Unless extended by us, you must select and acquire a Business Location within 90 days following the effective date of the Franchise Agreement. You may not

commence operations of your Ace Hardware Painting Services Business until such time as you have obtained an approved Business Location. The Business Location may not be relocated without our prior written consent. You must agree to comply with any additional standards established by us from time to time regarding your Business Location within 30 days of receipt of written notice from us of such standards.

Minimum Annual Gross Revenues

You will be required to achieve minimum gross revenues on an annual basis (the “Minimum Annual Gross Revenues”) as set forth below:

Operating Year of Franchise Agreement	Minimum Annual Gross Revenues
Year 1	\$200,000
Year 2	\$400,000
Year 3 and thereafter	\$500,000

The Minimum Annual Gross Revenues for your Ace Hardware Painting Services Business will not change if there is an increase or decrease in the number of households during the term of your Franchise Agreement. If you have entered into multiple Franchise Agreements with us, you must meet the Minimum Annual Gross Revenues for each Franchise Agreement unless we agree otherwise. However, if you execute a Multi-Territory Addendum for the operation of multiple Ace Hardware Painting Services Businesses in adjacent territories, that Multi-Territory Addendum will specify a combined Minimum Annual Gross Revenues amount that you must meet from all of those Ace Hardware Painting Services Businesses and territories combined. The amount of the Minimum Annual Gross Revenues designated under a Multi-Territory Addendum will be negotiated between the franchisee and us based on the characteristics of the territories, and may vary from the standard amounts described above that apply for each Ace Hardware Painting Services Business.

Following the end of each year after commencement of operations by you (an “operating year”), we will compute your total Gross Revenues for the just completed operating year. If you fail to achieve the minimum gross revenue in any operating year, we reserve the right to charge you for the royalty fee and/or National Brand Fund fee based on the Minimum Annual Gross Revenues instead of your actual Gross Revenues. We will invoice you for the difference between the amount of Royalty Fee and/or National Brand Fee due based on the Minimum Annual Gross Revenues, less the actual Royalty Fee and/or National Brand Fee paid to us during the applicable operating year.

If your actual Gross Revenues are less than the applicable Minimum Annual Gross Revenue for two consecutive operating years, or in any three operating years during the term of your Franchise Agreement, then we have the right to (i) terminate your Franchise Agreement, (ii) award additional franchises within the Territory or otherwise permit another franchisee to operate within the Territory, (iii) reduce the geographic size of your Territory, or (iv) any combination of the above options.

We have the right, in our sole discretion and on a case-by-case basis, to waive the obligation of you or any other franchisee to meet the Minimum Annual Gross Revenues requirement or to pay any fees or make expenditures calculated based on the applicable Minimum Annual Gross Revenues.

Referral Customer Contact

If we or another franchisee of ours operating outside of your Territory refer a prospective customer to you, you are required to contact that prospective customer within 24 hours of receiving the prospective customer's contact information from us or the other franchisee. If you fail to contact the prospective customer within that time period, we, in our sole discretion, shall have the right to assign another franchisee the right to contact the prospective customer and perform the services initially requested and all services later requested by the same prospective customer in the future, regardless of the fact that the prospective customer is located within your Territory.

General

Subject to your requirement to meet Minimum Annual Gross Revenues and respond to referral customers, all as discussed above, we will not operate, or permit another franchisee to operate, within your Territory. However, because of these requirements, your Territory is not deemed to be an exclusive Territory.

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

You will maintain rights to your Territory (or Territories), even though the number of households may increase.

You do not receive the automatic right to acquire additional franchises adjacent to your Territory. You may be granted, in our sole discretion, permission to sell or service customers in an unsold Territory adjacent to your Territory (an "Adjacent Territory"). However, when an Adjacent Territory is granted to another franchisee, you must, upon receipt of written notice from us, cease all sales and service efforts within the Adjacent Territory, and deliver to us, within 10 days of notice, all customer and prospect information related to customers and prospects located in the Adjacent Territory.

The Franchise Agreement gives you no options, rights of first refusal, or similar options to acquire any additional franchises from us, although we may in our discretion offer you the right to acquire additional franchises in the future.

Except as expressly stated above, you may not operate your Ace Hardware Painting Services Business outside of your Territory without our prior written consent. If you market, provide or sell any of the products or services of the Ace Hardware Painting Services Business within the territory of any Ace Hardware Painting Services Business owned by us, any affiliate of ours or any other franchisee of ours, without our prior written consent, we will have the right to terminate your Franchise Agreement effective immediately upon notice. You are prohibited from using other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales outside of your Territory, without our prior written consent.

We have and retain the right under the Franchise Agreement to develop and establish other franchise systems for similar, the same, or different products or services utilizing proprietary marks not now or in the future designated as part of the Ace Hardware Painting Services System licensed under the Franchise Agreement, and to grant licenses for these other franchise or license systems without providing you any right in those systems. We retain the right to open, operate, sell, manage and/or franchise Ace Hardware Painting Services Businesses outside your Territory. We are not restricted from the pursuit of any other business concept, or the distribution of proprietary equipment and supplies, if any, to wholesalers or other distribution outlets (other than Ace Hardware Painting Services Businesses) or by Internet, catalog, mail

order, telemarketing, other direct marketing sales or otherwise, whether inside or outside the Territory. We may use our Marks and Ace Hardware Painting Services System in connection with the provision of other services and products or in alternative channels of distribution (including by Internet, catalog, mail order, telemarketing or other direct marketing sales), inside or outside of the Territory. Our ultimate parent, Ace Hardware, or any other company affiliated with Ace Hardware other than us, may use trademarks or service marks similar to our Marks and methods of doing business that are similar to the System, in connection with providing or franchising others to provide services and products that may be similar to or include some of the services you may offer in your Ace Hardware Painting Services Business, including, by way of example but not by limitation, stand alone “Ace Handyman” or “Ace Hardware Plumbing Services” businesses, inside or outside of the Territory. (See Section 4.3 of FA.)

Our affiliate AHO currently operates multiple Ace Handyman Services businesses in the Denver, Colorado metropolitan area, and our affiliate AHF currently offers franchises for Ace Handyman Services businesses under the service mark ACE HANDYMAN SERVICES[®], which businesses provide repair and maintenance services for residential and commercial properties, including painting services, that may be deemed similar to the services offered by an Ace Hardware Painting Services Business. These Ace Handyman Services businesses may solicit and accept orders in your Territory. Since the two types of businesses have separate focuses, we do not anticipate conflicts between Ace Hardware Painting Services Businesses and Ace Handyman Services businesses regarding territory, customers, or franchisor support, but in the event of any conflicts we and AHF shall resolve them as we deem appropriate in our discretion. AHO and AHF share our principal office address. We also share training facilities with AHF.

Our parent, Ace Services, also owns Ace Senior Services. Ace Senior Services connects seniors in the community with independent contractors (“Helpers”) who offer home services that permit seniors to remain independent and live comfortably at home. The services offered through Ace Senior Services include yard maintenance, snow removal, cleaning and organizing, programing technology, smart home set up, and home safety assessment. It is not expected that the services offered by Ace Senior Services will compete with the types of services offered through an Ace Hardware Painting Services Business. Ace Senior Services currently only operates in the Denver, Colorado area, but may expand into other areas in the future.

We can develop, acquire or be acquired by, or engage in any other transaction with other businesses, companies and/or units (competitive or not), that are or will be located anywhere, including arrangements where other units are (or are not) converted to the Ace Hardware Painting Services System or other format, or in which company-owned, franchised or other businesses (including your Ace Hardware Painting Services Business) are (or are not) converted to another format (whether competitive or not), or both, and is maintained as the same concept, as a new concept, or as a separate concept in your Territory. You must fully cooperate with any of these conversions, at your sole expense.

ITEM 13 TRADEMARKS

We grant you the right to operate a business under the Marks. Our Marks are owned by Ace Hardware. As we grow the equity behind the Ace Hardware Painting Services brand, a key factor is strict compliance to its use. As such, you must explicitly adhere to its proper use.

Ace Hardware, our ultimate parent, has filed for registration on the Principal Register of the United States Patent and Trademark Office (“USPTO”) the following Marks:

Mark	Registration (Serial) Number	Registration (Application) Date
ACE HARDWARE PAINTING SERVICES	(97,585,973)	(September 9, 2022)
	(97,614,794)	(September 30, 2022)
	(97,614,798)	(September 30, 2022)

Ace Hardware has granted us, in a License Agreement dated October 1, 2022, a nonexclusive, royalty-free license to use and to permit our franchisees to use its Marks in the United States of America. The license is for 20 years commencing October 1, 2022, but it will automatically renew for successive 20-year periods if we do not materially breach the License Agreement by engaging in any activity that damages those Marks or the goodwill of those Marks. If the license is terminated, Ace Hardware has agreed it will continue to permit any franchisees of ours that have effective Franchise Agreements to continue to use the Marks as permitted by their Franchise Agreements; provided we agree to assign the effective Franchise Agreements to Ace Hardware or its successor or assigns.

As of the date of this Disclosure Document, the registration of our Marks with the USPTO are still pending and have not required renewal. Ace Hardware intends to file all required affidavits for all of their registered Marks when needed.

As of the date of this Disclosure Document, the Marks listed above are not registered with the USPTO. In addition to those Marks owned by Ace Hardware listed above, Ace Hardware and we also use a number of other unregistered trademarks and service marks, in which we claim common law trademark rights. The following statements apply solely to any unregistered trademarks and service marks: We do not have a federal registration for these principal trademarks. As such, these trademarks do not have as many legal benefits and rights as federally registered trademarks. If our right to use these trademarks is challenged, you may have to change to an alternative trademark, which may increase your expenses.

The Marks owned by Ace Hardware and our other trademarks and service marks are collectively referred to as the “Marks” or individually as a “Mark.”

You must follow our rules when you use any of our Marks. You cannot use our Marks as part of a business entity name or with modifying words, designs or symbols except as we license to you. You may not use our Marks or any unregistered mark or any variation of them, with the sale of an unauthorized product or service or in a manner not authorized in writing by us.

We reserve the rights to (i) any Internet sites utilizing a domain name incorporating one or more of the words “Ace,” “Ace Hardware,” “Ace Hardware Painting,” “Ace Hardware Painting Services,” or any other derivative using “Ace Hardware,” with “Painting,” “Painter” or “Painters,” and (ii) to advertise the Ace Hardware Painting Services Business on the Internet. You cannot establish an Internet site without our prior written consent, including any that uses any domain name containing one or more of the words “Ace,” in conjunction with “Hardware,” “Painting,” “Painter” or “Painters,” or any variation of these. We may withhold our consent in our sole discretion. We are the owner of all right, title and interest in and to any domain names designated in the Operations Manual.

There are no currently effective material determinations of the United States Patent and Trademark Office, trademark trial and appeal board, the trademark administrator of any state or court pending infringement, opposition or cancellation, or pending material litigation involving our principal Marks.

No currently effective agreements limit our right to use or license the use of the Marks, except that we may not violate the terms of the existing License Agreements between Ace Hardware and us.

You must notify us immediately when you learn about an infringement of or challenge to your use of the Marks. We will have the right to take any action we deem appropriate and have the exclusive right to control any litigation, arbitration or administrative proceeding arising out of any infringement of, or challenge or claim to, any of our Marks or in any way related to our Marks. Any damages or benefits arising out of any infringement, challenge or claim shall accrue exclusively to us. You must notify us immediately when you learn about the infringement or challenge and you must use our Marks only in accordance with the Franchise Agreement.

You must modify or discontinue the use of a Mark if we modify or discontinue it. If this happens, we will reimburse you for your reasonable out-of-pocket costs (if any) of changing your main identifying signage and other significant signage, but we will not be liable for any other costs, expenses or damages you incur as a result of our decision to modify or discontinue use of a Mark. You must not directly or indirectly contest our right to our Marks.

There may be one or more businesses similar to an Ace Hardware Painting Services Business, which are operating in or near the area(s) where you may do business or otherwise, which have a name and/or marks similar to ours and with superior rights to these names and/or Marks. We strongly urge you to research this possibility, using telephone directories, internet searches, local filings and other means, before you sign the Franchise Agreement or any other documents related to your business, or expending or paying any sums or making any commitments concerning your business. If you fail to do so, you may be at risk.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents or pending patent applications are material to the franchise.

No copyrights, other than common law copyrights in the Operations Manual, are material to the franchise. The Operations Manual contains our confidential and proprietary information and trade secrets regarding the operations of an Ace Hardware Painting Services Business. We may modify the Operations Manual in our sole discretion, but the modifications will not alter your status and rights under your Franchise Agreement. We have included a copy of the Table of Contents for our Operations Manual as Attachment G to this Disclosure Document.

You can use the proprietary information in the Operations Manual only as permitted by your Franchise Agreement. You must maintain the confidentiality of our Operations Manual and adopt reasonable procedures to prevent unauthorized disclosure of it. You are required to promptly tell us if you learn about unauthorized use of this proprietary information. We are not obligated to take any action, but we will respond to this information as we think appropriate. We will indemnify you against losses claimed by a third party concerning your use of this information. Our right to use or license this information is not materially limited by any agreement or known infringing use. There are no determinations of any administrative office or any court regarding these copyrighted materials or the proprietary information.

We own all records concerning the customers, suppliers, independent contractors and other service professionals of, and/or related in any way to, your Ace Hardware Painting Services Business, including all databases (whether in print, electronic or other form), with customer and potential customer names, addresses, phone numbers and e-mail addresses, and customer purchase records. You own all records concerning your employees. We may use, permit any third party to use, or transfer our records in any way we wish, both before and after any termination, expiration, repurchase, transfer or otherwise. (See Section 15.9 of FA.) We may contact any and/or all of your customers, suppliers, independent contractors and other service professionals for quality control, market research and any other purposes we deem appropriate, in our sole and absolute discretion. We have the right to inspect and audit your records, the records of certain individuals and companies affiliated with your Ace Hardware Painting Services Business, and the records of the immediate family members, generally meaning spouses, parents, siblings, and adult children, of you and these affiliated individuals.

We may require you to cause each of your officers, directors, partners or shareholders, and any member of your or their immediate families, and your Franchise Manager, as applicable, to execute our standard Nondisclosure and Noncompetition Agreement, a copy of which is attached to this Disclosure Document as Attachment B. You must provide us a copy of each Nondisclosure and Noncompetition Agreement at the time it is signed and thereafter upon our request. You also will not disclose the contents of any materials we deem confidential to anyone other than those persons who have an obligation of confidentiality to you.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

If you are an individual, either you individually or an individual who you designate and is approved by us to be an operating manager for your franchise, who we refer to as the Franchise Manager, must directly supervise the daily operation of your franchise at the Business Location. If we believe you lack sufficient business experience, you will be required to designate and hire a Franchise Manager whom we approve. If you are a corporation or other business entity, a Franchise Manager must be approved by us and must perform the direct, on-site supervision of your franchise. A Franchise Manager is not required to have any ownership interest in a business entity franchisee.

The Franchise Manager will need to attend and successfully complete the initial business training program and abide by the obligations in the Franchise Agreement and the Operations Manual.

You may use independent contractor painters in the operation of your Ace Hardware Painting Services Business. You are responsible for recruiting, appointing, hiring, firing, and supervising your employees, independent contractors, Franchise Managers, and other representatives. You have sole authority and control over the decision of whether or not to use independent contractors. You will also be solely responsible and liable for your decision to use independent contractors, any liability arising from the acts

or omissions of your independent contractors, and for complying with all laws, rules and regulations related to the engagement and use of independent contractors in your Ace Hardware Painting Services Business.

You must conduct a background check of all employees, contractors, and subcontractors hired or engaged by you and utilized in your Ace Hardware Painting Services Business and System including, but not limited to, Authorized Representatives. In conducting these background checks, you must abide by all applicable laws, rules and regulations, including, but not limited to, the Fair Credit Reporting Act (and the state equivalents, if any) and/or any employment laws, rules, regulations or ordinances. It is your responsibility to make sure that no employee, contractor or subcontractor enters a customer's home or business if such person has not successfully completed the background check process, as determined in your sole discretion.

You will have sole authority and control over the day-to-day operations of the Ace Hardware Painting Services Business and its employees, contractors and representatives. You are solely responsible for implementing training and other programs for your employees, contractors and representatives related to the legal, safe, and proper performance of their work, regardless of the fact that we may provide advice, suggestions, and certain training programs. The advice, suggestions, and training we provide are to protect our brand and the Marks and not to control the day-to-day operation of your Ace Hardware Painting Services Business. We are not a joint employer with respect to the operation of your Ace Hardware Painting Services Business, including, without limitation, your decision whether or not to use independent contractors, as determined in your sole discretion.

You must ensure that at least one representative of your Ace Hardware Painting Services Business maintains LRRP Certification at all times during the term of your Franchise Agreement. We recommend that you or the Franchise Manager, as applicable, obtain the LRRP Certification. If the representative with the LRRP Certification ceases to be associated with your Ace Hardware Painting Services Business, or if the representative's LRRP Certification is terminated for any reason, another representative of your Ace Hardware Painting Services Business must immediately obtain the LRRP Certification.

You or the Franchise Manager are required to devote substantial full time and best efforts on a daily basis, in person, to the supervision and conduct of the Ace Hardware Painting Services Business, which must not be less than 40 hours per week. However, if you are operating multiple Ace Hardware Painting Services Businesses in adjacent territories, we may agree to allow you to have one Franchise Manager dedicating full time and best efforts to all of the Ace Hardware Painting Services Businesses as a whole pursuant to the terms of the Multi-Territory Addendum.

If you wish to operate another business, including any e-commerce business which operates over the Internet, our prior approval, which we may grant or deny in our sole discretion, will be required. If you wish to operate another business with your Ace Hardware Painting Services Business, the other business must be a complimentary, non-competing enterprise; for example, a window covering business.

Unless waived by us, each individual who owns, directly or indirectly, an interest in the franchisee entity will sign the Guaranty and Assumption of Franchisee's Obligations assuming and agreeing to discharge all of your obligations and comply with all restrictions under the Franchise Agreement. (See Exhibit III to FA.)

ITEM 16

RESTRICTIONS ON WHAT YOU MAY SELL

In order to maintain uniformity throughout the Ace Hardware Painting Services System, franchisees must operate their businesses in conformity with our standards and specifications.

You may offer and sell only those products and services that we have approved or that meet the standards and specifications set by us, which may be set forth in the Operations Manual or in other writings.

You are required to offer all residential and commercial painting services that we designate as required for all franchisees within your market area. We may change the services required in your area, with prior notice to you. (See Section 11.3 of FA.) It is your responsibility to promptly obtain all licenses and permits necessary to operate the Ace Hardware Painting Services Business in your jurisdiction. You cannot engage in any activities not covered by your liability insurance or, if applicable, workers compensation insurance.

You cannot engage in any trade, practice or other activity that is harmful to our goodwill or reflects unfavorably on our reputation, that constitutes deceptive or unfair competition, or that is in violation of any applicable law.

Certain inventory, supplies, and equipment used in your Ace Hardware Painting Services Business must be purchased from us or a vendor approved by us, to the extent we have approved vendors for such supplies and equipment, or that meet the standards and specifications set by us. We have a purchasing arrangement with Ace whereby you must purchase all materials, supplies and goods needed to run your Ace Hardware Painting Services Business from an Ace Supplier, but only when the items are in stock or readily available and competitively priced.

We may establish a Franchisee Advisory Council, which would serve as an advisory council to assist us in collecting and prioritizing project requests and business process improvement suggestions from our franchisees and monitoring the status of existing project requests and improvement suggestions. We reserve the right to terminate the Franchisee Advisory Council, or to modify its purposes, in our sole discretion.

We may impose restrictions limiting your access to customers outside of your Territory as discussed in ITEM 12 above, but apart from this we do not impose any restrictions on your access to customers.

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ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the Franchise Agreement and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.

Provision	Section in Franchise or Other Agreement	Summary
a. Length of the franchise term	Section 3.1	10 years.
b. Renewal or extension of the term	Sections 3.3 and 3.4	If you are in good standing you can acquire up to one additional successor franchise term of 10 years after your initial term.
c. Requirements for you to renew or extend	Sections 3.3 and 3.4	No less than 120 days' notice, nor more than one year notice; sign the current form of the Franchise Agreement (which may contain terms and conditions materially different from your original Franchise Agreement); be in compliance with current Franchise Agreement; be current in payments; satisfy current standards for new franchisees; modify your Ace Hardware Painting Services Business and operations to conform with current Operations Manual; pay successor franchise fee; execute a Successor Franchise Rider (in its then current form, which will include, except where prohibited by law, a release), others.
d. Termination by you	Section 18.5	You can terminate the Franchise Agreement only if we materially breach the Franchise Agreement, if you provide us with written notice within 30 days of the breach and a reasonable opportunity to cure of not less than 90 days.
e. Termination by us without cause	Section 18.3	We can terminate at our option if there is a force majeure event that prevents us from performing our obligations under the Franchise Agreement and continues for longer than six months
f. Termination by us with cause	Sections 18.1 and 18.2	We can terminate based on your inability or unwillingness to operate your Ace Hardware Painting Services Business, or upon certain violations of the Franchise Agreement or engaging in illegal or unethical practices.
g. "Cause" defined – curable defaults	Section 18.2	You have 7 days to cure the filing of a legal action in violation of the dispute resolution terms in the Franchise Agreement; 10 days to cure misuse of Marks, non-payment of fees, non-submission of reports, failure to meet minimums, failure to employ a call center; and 30 days to cure any other default not listed in Section 18.2 (subject to modification by state law). If we provide you with a notice of default, we and our affiliates may suspend services to you until each default is cured.

Provision	Section in Franchise or Other Agreement	Summary
h. “Cause” defined – non-curable defaults	Section 18.1	Non-curable defaults: unauthorized disclosures; repeated defaults even if cured; abandonment; unapproved transfers; sales activity in the territory of another Ace Hardware Painting Services Business; sexual harassment or discrimination; violation of non-compete or other in-term restrictive covenant; breach of related agreement; a guaranty becomes unenforceable or inadequate; bankruptcy (which may not be enforceable under Federal Bankruptcy Law (11 U.S.C. § 101 et seq.)); others.
i. Your obligations on termination/non-renewal	Section 18.6	Obligations include escrow of an amount equal to 1% of the greater of the Gross Revenues or your Minimum Annual Gross Revenues for the prior 12 months to cover customer dispute issues; complete de-identification; return of proprietary materials; payment of amounts due; payment of an amount equal to the Royalty Fees based on the Minimum Annual Gross Revenues due over the remaining term under the Franchise Agreement, if terminated due to your default; inspection of books; assign all pending and contract business to us; others. <u>See</u> also item “r” below.
j. Assignment of contract by us	Section 17.1	No restriction on our right to assign.
k. “Transfer” by you - defined	Section 17.2	Includes transfer of contract or assets or ownership change.
l. Our approval of transfer by you	Sections 17.2 and 17.3	We have the right to approve all transfers.
m. Conditions for our approval of transfer	Section 17.3	New franchisee qualified; transfer fee paid, if applicable; purchase agreement approved; training completed by transferee; current agreement signed by transferee; escrow account established; and release signed by you (except where prohibited by law). Our current form of general release is attached to this Disclosure Document as <u>Attachment F</u> .
n. Our right of first refusal to acquire your business	Section 17.5	We can match any offer for your business within 30 days.
o. Our option to purchase your business	Not applicable	Not applicable.
p. Your death or disability	Section 17.4	Your estate or legal representative must apply to us for the right to transfer to the next of kin within 120 days.
q. Non-competition covenants during the term of the franchise	Sections 20.1 and 20.3	Prohibited from owning, operating or performing service for a competing business.
r. Non-competition covenants after the franchise is terminated or expires	Sections 20.2 and 20.3	No competing business for 24 months within 25 miles of the closest point to the former franchised Territory or the Territory of any other Ace Hardware Painting Services Business (including after assignment).

Provision	Section in Franchise or Other Agreement	Summary
s. Modification of the agreement	Section 23.1	The Franchise Agreement may be modified by a writing signed by both parties or, at our option, upon approval of 75% of our franchisees affected by the modification. The Operations Manual is subject to change.
t. Integration/merger clause	Section 23.2	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of this Disclosure Document and the Franchise Agreement may not be enforceable. Nothing in the Franchise Agreement is intended to disclaim any representations made by us in this Disclosure Document.
u. Dispute resolution by arbitration or mediation	Section 22	Except for certain claims, all disputes must be arbitrated in Denver, Colorado (subject to state law). If a claim can be brought in court, both you and we agree to waive our rights to a jury trial.
v. Choice of forum	Section 22.5	Colorado (subject to state law).
w. Choice of law	Section 22.5	Federal and Colorado law applies (subject to state law). The Colorado Consumer Protection Act does not apply.

ITEM 18 PUBLIC FIGURES

We do not currently use any public figure to promote the Ace Hardware Painting Services System.

ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Cameron Loughlin at 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228, and (720) 432-6125, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary
For Years 2019 to 2021

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised ⁽¹⁾	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Company-Owned ⁽²⁾	2019	1	1	1
	2020	1	1	1
	2021	1	1	1
TOTAL OUTLETS	2019	1	1	1
	2020	1	1	1
	2021	1	1	1

⁽¹⁾ We did not start offering franchises until October 28, 2022. We, therefore, had no franchised outlets during the years 2019, 2020 and 2021.

⁽²⁾ Includes outlets operated by our predecessor, MSP, and our affiliate, APO.

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2019 to 2021

Column 1 State	Column 2 Year	Column 3 Number of Transfers
TOTALS	2019	0
	2020	0
	2021	0

Table No. 3
Status of Franchised Outlets
For Years 2019 to 2021⁽¹⁾

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Terminations	Column 6 Non- Renewals	Column 7 Reacquired by Franchisor	Column 8 Ceased Operations- Other Reasons	Column 9 Outlets at End of the Year
TOTALS	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0

⁽¹⁾ We did not start offering franchises until October 28, 2022. We, therefore, had no franchised outlets during the years 2019, 2020 and 2021.

Table No. 4
Status of Company-Owned Outlets
For Years 2019 to 2021⁽¹⁾

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Totals	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
	2021	1	0	0	0	0	1

⁽¹⁾ Includes outlets operated by our predecessor, MSP, and our affiliate, APO.

Table No. 5
Projected Openings as of October 28, 2022

Column 1	Column 2	Column 3	Column 4
State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet In The Next Fiscal Year
Florida	0	1	0
Idaho	0	1	0
Iowa	0	1	0
Kansas	0	1	0
Massachusetts	0	1	0
Missouri	0	1	0
Nebraska	0	1	0
Oklahoma	0	1	0
Washington	0	2	0
TOTALS	0	10	0

A list of the names of all franchisees and the addresses and the telephone numbers of their franchised business are listed in Attachment H to this Disclosure Document. A list of the name and last known city, state and telephone number of every franchisee who has had a franchised business terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under their Franchise Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of the date of this Disclosure Document is listed on Attachment I to 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, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system.

There is not currently any advertising council within the Ace Hardware Painting Services System, although we may establish one or more councils in the future on terms we elect in our discretion.

We currently have no other trademark-specific franchisee association within the Ace Hardware Painting Services System, but reserve the right to form them in the future.

ITEM 21 FINANCIAL STATEMENTS

Attached to this disclosure document as Attachment J are the audited consolidated financial statements of Ace Hardware and its subsidiaries for the period ended January 1, 2022, January 2, 2021 and December 28, 2019 and for the years then ended, and the unaudited interim financial statements of Ace Hardware and its subsidiaries for the period ended July 2, 2022. We are owned indirectly by Ace Hardware. The Guaranty of Performance by Ace Hardware of our performance of our obligations under the Franchise Agreement can be found in Attachment J after the financial statements. Our fiscal year ends on the Saturday nearest December 31st and can consist of either 52 or 53 weeks.

ITEM 22 CONTRACTS

These are the only contracts we enter into with any franchisee regarding the offering of franchises in this state:

- Attachment A - Franchise Agreement and Exhibits
- Attachment B - Nondisclosure and Noncompetition Agreement
- Attachment C - Statement of Prospective Franchisee
- Attachment D - Multi-Territory Addendum to Franchise Agreements
- Attachment F - Current Form of General Release
- Attachment M - APF Data Collection Agreement

ITEM 23 RECEIPTS

The last two pages of this Disclosure Document are receipt pages. Please sign and date each of them as of the date you received this Disclosure Document, detach the second receipt page, and promptly return it to us as specified on that page.

ATTACHMENT A
FRANCHISE AGREEMENT
WITH EXHIBITS

ACE HARDWARE PAINTING SERVICES™
FRANCHISE AGREEMENT

Franchisee: _____

Territory: _____

ACE HARDWARE PAINTING SERVICES™
FRANCHISE AGREEMENT
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EXHIBITS

- I. ADDENDUM TO FRANCHISE AGREEMENT
- II. COMMENCEMENT DATE SUPPLEMENT TO FRANCHISE AGREEMENT
- III. GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS
- IV. STATEMENT OF OWNERSHIP
- V. COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS, TELEPHONE LISTINGS AND INTERNET ADDRESSES
- VI. RIDERS TO FRANCHISE AGREEMENT FOR SPECIFIC STATES OR PROVINCES

ACE HARDWARE PAINTING SERVICES™ FRANCHISE AGREEMENT

THIS AGREEMENT (“**Agreement**”) is made effective as of the date set forth on the signature page hereof, between **ACE PAINTING FRANCHISING, LLC**, a Delaware limited liability company (“**APF**”), and the franchisee named on the signature page of this Agreement (“**Franchisee**”), who, on the basis of the following understandings and in consideration of the following promises, agree as follows:

1. BACKGROUND AND PURPOSE

1.1. Background.

APF has developed and owns a unique system for establishing, operating and marketing businesses that provide a variety of approved painting services for residential and commercial customers (“**Ace Hardware Painting Services Businesses**”), which Ace Hardware Painting Services Businesses provide high-quality indoor and outdoor painting and staining services for residential and commercial properties (the “**Services**”) under the mark ACE HARDWARE PAINTING SERVICES™ and related service marks, trademarks, logos and trade names (collectively the “**Marks**”) and using APF’s unique system for operating the business and related licensed methods of doing business (“**Licensed Methods**”).

1.2. System.

APF grants the right and license to qualified individuals and entities to use the Marks and Licensed Methods to establish and operate Ace Hardware Painting Services Businesses under its franchise system (“**System**”).

1.3. Purpose.

Franchisee desires to establish an Ace Hardware Painting Services Business and APF desires to grant Franchisee the right and license to operate Ace Hardware Painting Services Business under the terms and conditions contained in this Agreement.

2. GRANT OF FRANCHISE

2.1. Grant of Franchise.

APF grants to Franchisee, and Franchisee accepts from APF, (i) a non-exclusive right and license to open and operate an Ace Hardware Painting Services Business, and (ii) a non-exclusive license to use the Marks solely in connection with the establishment and operation of an Ace Hardware Painting Services Business. The grant hereunder is for the type of franchise set forth in the Addendum, as defined in **Section 2.2** below.

2.2. Scope of Franchise Operations.

Franchisee shall use its best efforts to promote the Ace Hardware Painting Services Business. Franchisee agrees to use the Marks and Licensed Methods, as they may be changed, improved and further developed by APF from time to time, only in accordance with the terms and conditions of this Agreement, including the Addendum to Franchise Agreement (“**Addendum**”), which is attached as Exhibit I, and the other Exhibits to this Agreement, which are attached to, and incorporated into, this Agreement.

3. TERM AND EXPIRATION

3.1. Term.

The term of this Agreement is for a period of 10 years from the date this Agreement is executed by APF, unless sooner terminated as provided herein. Franchisee agrees to operate the Ace Hardware Painting Services Business for the entire term of this Agreement.

3.2. Continuation.

If Franchisee continues to operate the Ace Hardware Painting Services Business with APF's express or implied consent following the expiration or termination of this Agreement, the continuation will be on a month-to-month extension of this Agreement. This Agreement will then be terminable by either party on 30 days written notice. Otherwise, all provisions of this Agreement will apply while Franchisee continues to operate the Ace Hardware Painting Services Business.

3.3. Successor Franchise.

Provided Franchisee is not in default at either the time of its notice of exercise of its successor franchise rights or at the time of the grant of the successor franchise rights, at the end of the term of this Agreement, Franchisee will have the option to renew its franchise rights for one additional term of 10 years by acquiring successor franchise rights, provided that Franchisee has met all of the following requirements:

a. Franchisee executes APF's then current form of Franchise Agreement, which may have terms substantially different than those set forth in this Agreement, within 30 days after Franchisee's receipt of such Franchise Agreement from APF.

b. Franchisee maintained compliance with all of the provisions of this Agreement during the term, including payment, on a timely basis, of all Royalty Fees, National Brand Fees, Software and Internet Fees, and other payments due hereunder. "**Compliance**" means, at a minimum, that Franchisee has not (i) failed to timely cure any breach of this Agreement specified by APF in a written notice to Franchisee; or (ii) received any written notification from APF of breach hereunder more than three times during the 24 month period prior to the expiration of the term of this Agreement, regardless of whether such breaches were timely cured.

c. Franchisee satisfies the then current standards applicable to all new APF franchisees.

d. Franchisee maintains or modifies the Ace Hardware Painting Services Business and its operations at Franchisee's sole expense (the necessity of which will be in the sole discretion of APF) to conform to the then current Operations Manual (hereinafter defined).

e. Franchisee executes a successor franchise rider in the form then in use by APF, which, unless prohibited by law, includes a general release of any and all claims against APF and its affiliates, and their respective officers, directors, employees and agents.

f. Franchisee pays to APF a successor franchise fee in the amount of \$5,500, which is due and payable upon execution of APF's then current Franchise Agreement and will be nonrefundable under all circumstances once paid. Except for the successor franchise fee described in the preceding sentence, an initial franchisee fee will not be charged upon execution of the successor Franchise Agreement and successor franchise rider.

3.4. Exercise of Option for Successor Franchise.

Franchisee may exercise its option for a successor franchise by giving written notice of such exercise to APF not less than 120 days, but not more than one year, prior to the scheduled expiration of this Agreement. Franchisee's successor franchise rights will become effective upon Franchisee's compliance with **Section 3.3** above. APF will provide Franchisee with copies of the then current Franchise Agreement and successor franchise rider within 30 days of Franchisee's notice of exercise of its option for a successor franchise. If Franchisee fails to execute and deliver the successor Franchise Agreement and successor franchise rider to APF within 30 days after Franchisee's receipt thereof from APF, then Franchisee shall be deemed to have irrevocably declined to exercise its option for a successor franchise and the Franchisee's option for a successor franchise shall terminate as of such date.

4. TERRITORY

4.1. Business Location.

Franchisee will operate its Ace Hardware Painting Services Business from an office ("**Business Location**"), which may be located in Franchisee's or its Principal Representative's or Franchise Manager's residence, as those terms are defined in Section 6.1, as long as the home-based office meets the general guidelines of the Internal Revenue Service. The Business Location must be centrally located in the Territory and meet APF's current standards. If Franchisee elects to have an office outside of Franchisee's or its Principal Representative's or Franchise Manager's residence, Franchisee is solely responsible for selecting and acquiring the premises for its Business Location. Franchisee must obtain APF's prior written consent to the Business Location. Unless extended by APF, Franchisee must select and acquire a Business Location within 90 days following the effective date of this Agreement. The Business Location is designated in the Addendum. Franchisee may not commence operations of its Ace Hardware Painting Services Business until such time as it has obtained an approved Business Location. The Business Location may not be relocated without the prior written consent of APF. Franchisee agrees to comply with any additional standards established by APF from time to time regarding Franchisee's Business Location within 30 days of receipt of written notice from APF of such standards.

4.2. Territory.

a. APF has designated a protected territory as set forth in the Addendum (the "**Territory**") in which APF agrees it will not operate or franchise a third party to operate an Ace Hardware Painting Services Business, except as set forth in **Section 4.3** below. The Territory consists of one or more counties, cities, zip or postal code areas, street boundaries or other designated geographical boundaries as described in the Addendum, and shall contain approximately the number of households set forth in the Addendum. The Territory may not be changed or relocated without the prior written consent of APF. The technical naming of the Territory will be provided by APF and take into consideration digital and web marketing optimizations as well as existing and potential future names of adjacent territories.

b. Franchisee shall limit the operation of its Ace Hardware Painting Services Business to providing Services to customers' homes and businesses located within the Territory. Notwithstanding the foregoing sentence to the contrary, Franchisee may be granted, at APF's sole discretion, express written permission to provide Services to customers located in an unsold territory adjacent to Franchisee's Territory (an "**Adjacent Territory**"), provided, that Franchisee agrees that when the Adjacent Territory is granted to another franchisee by APF, Franchisee will, upon receipt of written notice from APF, cease all of its sales and service efforts within the Adjacent Territory and deliver all customer and prospect lists relating to the Adjacent Territory to APF within 10 business days of such notice. Franchisee is prohibited

from using other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales outside of the Territory, without APF's prior written consent.

4.3. Failure to Respond to Referrals.

If APF or another APF franchisee operating outside of the Territory refers a prospective customer to Franchisee, Franchisee is required to contact that prospective customer within 24 hours of receiving the prospective customer's contact information from APF or the other franchisee, as applicable. If Franchisee fails to contact the prospective customer within that time period, APF, in its sole discretion, shall have the right to assign another franchisee the right to contact the prospective customer and perform the services initially requested and all services later requested by the same prospective customer in the future, regardless of the fact that the prospective customer is located within Franchisee's Territory.

4.4. APF's Reservation of Rights.

Franchisee understands and agrees that APF has and retains the rights under this Agreement to: (a) develop and establish other franchise systems for similar, the same, or different products or services utilizing proprietary marks not now or hereafter designated as part of the Marks and System licensed by this Agreement, and to grant licenses for these other franchise or license systems without providing Franchisee with any rights therein; (b) open, operate, sell, manage and/or franchise Ace Hardware Painting Services Businesses outside the Territory; (c) use, and to license others to use, the Marks and Licensed Methods for the operation of Ace Hardware Painting Services Businesses at any location other than in the Territory; (d) use the Marks and the Licensed Methods in connection with the provision of other Services or in alternative channels of distribution (including, but not limited to, by Internet, catalog, mail order, telemarketing or other direct marketing sales), without regard to location; (e) pursue any other business concept, or the distribution of proprietary equipment and supplies, if any, to wholesalers or other distribution outlets (other than Ace Hardware Painting Services Businesses) or by Internet, catalog, mail order, telemarketing, other direct marketing sales or otherwise, whether inside or outside the Territory; and (f) operate any Internet sites utilizing a domain name incorporating one or more of the words "Ace," "Ace Hardware," "Ace Hardware Painting," "Ace Hardware Painting Services," or any other derivative using "Ace Hardware" with "Painting," "Painter" or "Painters," all without granting Franchisee any rights thereto. APF can develop, acquire or be acquired by, or engage in any other transaction with other businesses, companies and/or units (competitive or not) that are or will be located anywhere, including arrangements where other units are (or are not) converted to the System or other format, or in which company-owned, franchised or other businesses (including Ace Hardware Painting Services Businesses) are (or are not) converted to another format (whether competitive or not), or both, and is maintained as the same concept, as a new concept, or as a separate concept in the Territory. Franchisee must fully cooperate with any of these conversions, at Franchisee's sole expense. Franchisee further acknowledges and agrees that APF's ultimate parent, Ace Hardware Corporation, or any other company affiliated with it other than APF, may use trademarks or service marks similar to the Marks and methods of doing business that are similar to the System and Licensed Methods, in connection with providing or franchising others to provide Services that may be similar to or include some of the services Franchisee may offer in its Ace Hardware Painting Services Business, including, by way of example but not by limitation, stand alone "Ace Hardware" or "Ace Plumbing" businesses, inside or outside of the Territory, and that such use does not violate the protected territory rights of Franchisee.

5. INITIAL FEES

5.1. Initial Franchise Fee.

Franchisee will pay APF an initial franchise fee in the amount set forth in the Addendum (the “**Initial Franchise Fee**”), which shall be due and payable as set forth in the Addendum. Franchisee acknowledges and agrees that the Initial Franchise Fee represents payment for the initial grant of the rights to use the Marks and Licensed Methods, that APF has earned the Initial Franchise Fee upon receipt thereof, and that the Initial Franchise Fee is not refundable to Franchisee once paid.

6. TRAINING

6.1. Initial Training Program.

Franchisee (or if Franchisee is an entity, a managing partner, member or shareholder consented to by APF (a “**Principal Representative**”), or a fully trained and qualified operations manager designated by Franchisee in writing to manage the Ace Hardware Painting Services Business on Franchisee’s behalf (the “**Franchise Manager**”), if applicable, shall attend and satisfactorily complete the initial business training program (the “**Initial Training Program**”) prior to opening Franchisee’s Ace Hardware Painting Services Business. The Initial Training Program may be conducted in-person or virtually via a video conferencing system. Prior to attending the initial business training, Franchisee shall complete the pre-opening work and study, and Franchisee or its Franchise Manager must obtain the LRRP Certification discussed in **Section 11.1.k** below for its Ace Hardware Painting Services Business. Franchisee shall be responsible for all wages, travel and living expenses incurred by itself, its Principal Representative, the Franchise Manager, and for any other employee attending the Initial Training Program. APF will allow three employees of Franchisee, in addition to Franchisee or its Principal Representative, which may include the Franchise Manager, if applicable, to attend the Initial Training Program without tuition charged. APF may charge for any additional employees of Franchisee who attend the Initial Training Program. If, under the terms of this Agreement or otherwise, Franchisee needs or desires to have persons attend the Initial Training Program after Franchisee’s attendance of the Initial Training Program, then Franchisee must pay the then current tuition charged by APF for those persons, in addition to all wages, travel and living expenses incurred in connection with their attendance at the Initial Training Program.

6.2. Length of Training.

The pre-opening work and study is an approximately eight-week program. The Initial Training Program shall be conducted within 90 days after the full execution of this Agreement, unless Franchisee and APF agree to a later time, and approximately 30 days prior to the opening of Franchisee’s Ace Hardware Painting Services Business. The Initial Training Program will consist of approximately 40 to 55 hours of instruction to be conducted over five business days at APF’s Support Center facilities in the Denver, Colorado metropolitan area, or another location designated by APF. APF reserves the right to waive all or a portion of the Initial Training Program or to alter the training schedule, if in APF’s sole discretion, Franchisee, its Principal Representative, or its Franchise Manager, as applicable, has sufficient prior experience.

6.3. On-Site Training.

Franchisee, Franchisee’s Principal Representative, or the Franchise Manager, as applicable, shall also complete approximately 36 to 46 hours of on-the-job training at the Business Location within the first 60 days of Franchisee’s operation of the Ace Hardware Painting Services Business, to be conducted over four to five business days (“**On-Site Training**”). In APF’s sole discretion, the On-Site Training

may be divided into two separate training programs held at two different times. Attendance at the On-Site Training is mandatory for Franchisee, its Principal Representative, or the Franchise Manager, as applicable. Other employees as Franchisee desires may also attend such training.

6.4. Additional Training.

a. If APF determines at any time during the term of this Agreement that Franchisee, its Principal Representative, or its Franchise Manager requires training in addition to the Initial Training Program and On-Site Training, then APF will provide notice to Franchisee of such necessary additional training, and APF will conduct such additional training program(s) at a location designated by APF. Franchisee will be responsible for paying the travel, lodging and other costs for Franchisee or its Principal Representative, Franchise Manager, or other representatives, and shall pay APF its standard fees for conducting additional training in accordance with APF's standard fee schedule, which fees may be changed from time to time upon 30 days' notice to Franchisee.

b. From time to time, APF may conduct additional meetings, seminars, conventions, and training programs for the benefit of all franchisees of APF. Franchisee or its representatives may attend such programs at their own expense and shall attend such programs for which APF has determined that Franchisee's attendance is required. APF will not require Franchisee to attend national training programs more often than once every 24 months; provided, however, that this limitation shall not include annual conventions or regional training programs or meetings. APF will give Franchisee at least 30 days prior written notice of any ongoing seminar, convention, program or meeting being held at which Franchisee's attendance is required. Franchisee or its representatives as designated by APF will be required to attend APF's annual convention, which may be held at APF's Denver, Colorado metropolitan area headquarters or at another location selected by APF. Franchisee and its representatives will be required to stay at the hotel where the primary functions are held, unless APF, in its sole discretion, otherwise agrees. Any such meeting, seminar, convention, or training program may be held virtually via a video conferencing system.

c. APF will not charge a fee or its costs for any additional mandatory meeting, training program, seminar or convention. However, unless APF agrees otherwise, if Franchisee, its Principal Representative, or its Franchise Manager fails to attend the applicable mandatory training meeting, training program, seminar or convention, Franchisee will be required to pay a no show fee of \$1,500 per missed event. If Franchisee does not stay for the entire function or does not stay in the designated hotel, the no show fee shall be reduced by 50 percent. Any fees due to missing all or some of a training program, seminar, regional meeting or annual convention or for not staying at the hotel where the primary functions are held, shall be invoiced to Franchisee within 15 days of completion of the applicable program, seminar, meeting or convention and shall be due within 15 days thereafter. If Franchisee or its applicable representative fails to attend a program at which attendance is deemed mandatory by APF, APF may, at its sole discretion, and without waiving any other rights APF may have hereunder, require Franchisee or its applicable representative to attend and complete a make-up or alternative program at a location determined by APF. Franchisee will be responsible for paying all wages, travel, lodging and other costs, and for paying Franchisee's registration fee for the program.

d. Franchisee will also be responsible for all wages, travel and living expenses associated with the attendance of Franchisee, its Principal Representative, or its Franchise Manager, as applicable, and all other persons associated with Franchisee at each training program, seminar, regional meeting or annual convention.

6.5. Release.

Franchisee, for itself and its agents, heirs, legal representatives, successors and assigns, forever releases, waives, discharges and holds APF and any of its affiliated companies, directors, officers, employees and agents harmless from any and all claims, demands, causes of actions, loss, damage or injury, including attorneys' fees and costs, on account of, arising out of or attributable to Franchisee's attendance at or participation in any seminar, convention, program or meeting, or other company function or activity, including but not limited to the Initial Training Program, the On-Site Training, any regional meetings, other required or non-required training programs, or annual conventions, held or sponsored by or for APF or the travel to or from such programs.

7. FRANCHISEE'S DEVELOPMENT OBLIGATIONS

7.1. Computer Equipment and Telephones.

Franchisee is required to own and operate a computer with software meeting APF's minimum specifications in the operation of its Ace Hardware Painting Services Business. APF's minimum specifications currently require a PC computer running a Windows 10 or higher operating system and a high speed Internet connection, with the Microsoft Office suite standard and QuickBooks online version software. Franchisee is also required to own and use a smart phone or other device agreed to in writing by APF meeting APF's standards and specifications that can and will be kept on and used to receive and send e-mails throughout the day from any location within the Territory, including job sites. APF will provide an e-mail account to Franchisee. Franchisee is required to use only the e-mail account provided by APF in the operation of its Ace Hardware Painting Services Business, and Franchisee may not use the e-mail account for any purpose not related to the operation of its Ace Hardware Painting Services Business. Franchisee is required to check such e-mail account throughout the business day using the required mobile device for receiving and sending e-mail messages promptly. APF reserves the right to discontinue providing the e-mail account in the future, in which event Franchisee will be required to maintain an e-mail account to be used in the operation of the Ace Hardware Painting Services Business. Franchisee shall at all times utilize APF's required software (including APF's business operations software) in the operation of its Ace Hardware Painting Services Business. Franchisee shall purchase, at Franchisee's sole cost and expense, all required third-party software and hardware upgrades and shall immediately install the software upgrades on all computer equipment used by Franchisee in operating its Ace Hardware Painting Services Business. Franchisee shall cause Franchisee's employees to have smartphones and or tablets for field operations to operate the business operations software. Franchisee shall be responsible for ensuring the software and application versions are current. Franchisee shall add, eliminate, substitute or modify any computer equipment, software, telephones, and other similar equipment upon notice from APF of changes in APF's specifications and requirements.

7.2. Authorized Representatives and Independent Contractors.

a. Franchisee will be solely responsible for recruiting, appointing, hiring, firing, and supervising its employees, agents, Principal Representatives, Franchise Managers, and other authorized representatives of the Ace Hardware Painting Services Business (collectively referred to as "**Authorized Representatives**") who will assist in providing products and services to Franchisee's customers, answering phones, scheduling jobs with customers, assisting with employment applications, paperwork check-in other customer service, and otherwise assist with running Franchisee's Ace Hardware Painting Services Business. These Authorized Representatives will be employees or agents of Franchisee. They are not employees or agents of APF and APF is not the joint employer of those persons. Franchisee will have sole authority and control over the day-to-day operations of the Ace Hardware Painting Services Business and its Authorized Representatives. APF will have no right or obligation to direct Franchisee's

Authorized Representatives or to operate the Ace Hardware Painting Services Business. It is Franchisee's responsibility to determine compensation of Authorized Representatives, terms of employment, safety regulations, work assignments, work schedules, and working conditions. Any information regarding any of those issues provided to Franchisee by APF are mere suggestions and Franchisee shall have the sole discretion to utilize such information or not. Franchisee is solely responsible for implementing training and other programs for employees and other Authorized Representatives related to the legal, safe, and proper performance of their work, regardless of the fact that APF may provide advice, suggestions, and certain training programs as described in this Agreement. Such advice, suggestions, and training by APF are provided to protect APF's brand and the Marks and not to control the day-to-day operation of Franchisee's Ace Hardware Painting Services Business. Franchisee will keep APF informed of the names, addresses and telephone numbers of all Authorized Representatives. Franchisee shall cause each person holding an ownership interest in Franchisee, if Franchisee is an entity, to execute APF's standard Nondisclosure and Noncompetition Agreement.

b. Franchisee is permitted to engage and use independent contractors in the operation of its Ace Hardware Painting Services Business. Franchisee has sole authority and control over the decision of whether or not to use independent contractors. Franchisee will also be solely responsible and liable for its decision to use independent contractors, any liability arising from the acts or omissions of its independent contractors, and for complying with all laws, rules and regulations related to the engagement and use of independent contractors in its Ace Hardware Painting Services Business.

7.3. Commencement of Operations.

Unless otherwise agreed to in writing by APF and Franchisee, Franchisee shall be deemed to have commenced operations on the date that Franchisee books its first job, but in no event later than the date set forth in the Addendum, which shall be 120 days after Franchisee, its Principal Representative, or the Franchise Manager, as applicable, have successfully completed the pre-opening study and Initial Training Program.

7.4. Active Operations.

Unless otherwise agreed in writing by APF and Franchisee, once Franchisee has commenced operations as specified above, Franchisee must actively promote and continue to operate its Ace Hardware Painting Services Business in accordance with the Operations Manual (as defined below) and this Agreement; unless APF gives its prior written consent to Franchisee to temporarily suspend its operations, which consent may be withheld by APF for any reason.

8. DEVELOPMENT ASSISTANCE

8.1. APF's Development Assistance.

Prior to or simultaneously with the opening of the Franchisee's Ace Hardware Painting Services Business, APF or its designee will provide Franchisee with the following assistance:

- a. Designate Franchisee's protected Territory.
- b. Provide Franchisee with access to APF's business operations software, an e-mail account, an Internet site for prospective customers, and an Intranet site for Franchisee and other franchisees of APF. APF reserves the right to discontinue providing the e-mail account and Intranet site at any time in its sole discretion, if technology advancements or solutions make these obsolete or impractical to provide or take the place of these tools. Franchisee acknowledges that the Internet site will also include

information for prospective franchisees regarding purchasing an Ace Hardware Painting Services Business franchise. Franchisee must purchase additional required software from suppliers selected by Franchisee.

c. Provide Franchisee with the specifications of all initial and replacement equipment, inventory and supplies required for the operation of its Ace Hardware Painting Services Business, all as specified in the Operations Manual, and a list of all approved suppliers of any Services, products, equipment, inventory, supplies and other materials that APF requires Franchisee to use.

d. Provide Franchisee with pre-opening and opening activities, conducted as determined by APF and just before and including the first week of operation of Franchisee's Ace Hardware Painting Services Business. These activities may include providing Franchisee with a list of information about tasks Franchisee will need to complete to establish its business, assisting Franchisee in completing those tasks and assigning a field support TEAM member to assist Franchisee with completion of the startup list.

e. Provide Franchisee with a copy of APF's proprietary project management start-up program.

f. Make available to Franchisee one copy of APF's Operations Manual in accordance with **Article 9** below.

g. Provide the initial business training in accordance with **Sections 6.1** and **6.2** of this Agreement.

9. OPERATIONS MANUAL

9.1. Operations Manual.

APF agrees to make available to Franchisee one or more books, manuals, technical bulletins, memoranda or other supplemental written materials, in whatever form (including electronic form), prepared by or on behalf of APF for use by franchisees generally or for Franchisee in particular (all referred to in this Agreement as the "**Operations Manual**") covering the proper operating and marketing techniques of Franchisee's Ace Hardware Painting Services Business. The Operations Manual is designed to protect APF's reputation and the goodwill of the Marks, it is not designed to control the day-to-day operations of Franchisee's Ace Hardware Painting Services Business. APF may modify the Operations Manual at APF's discretion. At APF's sole discretion, it may make the Operations Manual, or any updates or revisions thereto, available online. Franchisee agrees that it will comply with the Operations Manual as an essential aspect of its obligations under this Agreement.

9.2. Confidentiality of Operations Manual Contents.

Franchisee agrees to use the Marks and Licensed Methods only as specified in the Operations Manual. The Operations Manual is the sole property of APF, and will be used by Franchisee only during the term of this Agreement and in strict accordance with the terms and conditions hereof. Franchisee will not duplicate the Operations Manual or written materials considered by APF to be a component of the Operations Manual, nor disclose the contents thereof to persons other than those persons who have an obligation of confidentiality to Franchisee. Franchisee will return the Operations Manual to APF upon the expiration, termination or assignment of this Agreement, at Franchisee's sole expense.

9.3. Changes to Operations Manual.

APF reserves the right to revise the Operations Manual from time to time as it deems necessary. Franchisee, within five business days of receiving any updated information or electronic notifications of such updated information, will update its copy of the Operations Manual as instructed by APF and will conform its operations to the updated provisions. A master copy of the Operations Manual maintained by APF at its principal office, regardless if maintained electronically or otherwise, will be controlling in the event of a dispute regarding the content of any Operations Manual.

10. OPERATING ASSISTANCE

10.1. APF's Available Services.

APF agrees that, during Franchisee's operation of the Ace Hardware Painting Services Business, and provided Franchisee is in compliance with the terms of this Agreement, APF or its designee will provide to Franchisee the following assistance and services:

- a.** Conduct the On-Site Training in accordance with **Section 6.3** of this Agreement.
- b.** From time to time, research new products, services and methods of doing business and provide Franchisee with information concerning developments of this research.
- c.** Make a representative of APF available to Franchisee on a reasonable basis via telephone, text, and e-mail during APF's regular business hours to discuss Franchisee's operational questions and experiences.
- d.** Provide regular communications on current best practices through telephone calls, webinars, video conferencing, e-mail and other electronic communications, internal blogs, and other means.
- e.** Hold periodic webinars, regional meetings, and annual conferences to discuss sales techniques, new product developments, new service suggestions, accounting, inventory control, performance standards, advertising programs, merchandising procedures and other topics deemed relevant by APF in accordance with **Section 6.4.b** of this Agreement. Any meeting may be held virtually via a video conferencing system.
- f.** If APF determines that Franchisee requires additional training, conduct the additional training programs in accordance with **Section 6.4.a** of this Agreement.
- g.** Make available to Franchisee all marketing programs, advertising designs, advertising campaigns, and camera-ready artwork. APF may charge a fee for these materials.
- h.** In providing standards, specifications, processes, procedures, requirements or instructions applicable to Franchisee, assist in local market research and provide guidance and assistance to Franchisee in recommending the prices to be charged by Franchisee for the Services provided by Franchisee. Unless prohibited by applicable law, APF may periodically set maximum, minimum, or set prices that Franchisee may advertise and charge for Services offered by its Ace Hardware Painting Services Business. If APF establishes a maximum price for any Services or products, Franchisee shall not offer or sell those Services or products at any greater price. If APF establishes a minimum price for any Services or products, Franchisee shall not offer or sell those Services or products at any lesser price. If APF establishes a set price for any Services or products, Franchisee shall offer or sell those Services or

products only at that price. If APF does not establish pricing limits, it may establish suggested prices. In that case, any prices that APF recommends to Franchisee are merely recommendations and Franchisee may establish its own prices, which may be higher or lower than APF's recommended prices. Franchisee must abide by Franchisor's advertising policies related to advertising prices. APF shall have no control over the day-to-day managerial operations of Franchisee's Ace Hardware Painting Services Business.

i. Provide Franchisee with access to APF's business operations software and all upgrades, an e-mail account, an Internet site for prospective customers, and an Intranet site for Franchisee and other franchisees of APF, and to social media accounts for Franchisee's Ace Hardware Painting Services Business that APF deems relevant for the brand. Franchisee acknowledges that the Internet site will also include information for prospective franchisees regarding purchasing an Ace Hardware Painting Services Business franchise. APF reserves the right to discontinue providing the Intranet site at any time in its sole discretion.

j. Provide Franchisee with a list of approved third party call centers available to receive calls and provide other customer services for Franchisee's Ace Hardware Painting Services Business.

10.2. Additional APF Services.

Although not obligated to do so, upon the reasonable request of Franchisee, APF may make its employees or designated agents available to Franchisee, either at APF's office or within Franchisee's Territory, for additional advice and assistance in connection with the ongoing operation of the Ace Hardware Painting Services Business governed by this Agreement. If Franchisee requests such additional assistance and APF agrees to provide it, APF reserves the right to charge Franchisee for all travel, lodging, living expenses, telephone charges and other identifiable expenses associated with such assistance, plus a fee based on the time spent by each employee on behalf of Franchisee. Any fee will be charged in accordance with the then current published fees being charged by APF for such assistance.

11. FRANCHISEE'S OPERATIONAL COVENANTS

11.1. Business Operations.

Franchisee acknowledges that it is solely responsible for the successful operation of its Ace Hardware Painting Services Business and that the continued successful operation thereof is, in part, dependent upon Franchisee's compliance with this Agreement and the Operations Manual. In addition to all other obligations contained in this Agreement and in the Operations Manual, Franchisee covenants that:

a. Franchisee shall, consistent with the terms of this Agreement, diligently develop its Ace Hardware Painting Services Business and use its best efforts to market and promote the required Services in the Territory.

b. Franchisee shall strictly comply with all present and future provisions of the Operations Manual and all other policies established by APF from time to time.

c. Franchisee, or the Franchise Manager, as applicable, shall devote full time and best efforts on a daily basis, in person, to the supervision and conduct of Franchisee's Ace Hardware Painting Services Business, which supervision must not be less than 40 hours per week. Franchisee may only operate another business, including any e-commerce business which operates over the Internet, with APF's prior approval, which approval may be granted or denied in APF's sole and absolute discretion. If Franchisee wishes to operate another business with Franchisee's Ace Hardware Painting Services

Business, the other business must be a complimentary, non-competing enterprise; for example, a maid service.

d. Franchisee, the Franchisee's Principal Representative, or the Franchise Manager, as applicable, shall attend and complete the Initial Training Program and the On-Site Training referred to in **Article 6** above. Franchisee, the Franchisee's Principal Representative or the Franchise Manager, as applicable, shall also attend subsequent mandatory training programs, demonstrations and seminars at locations as APF may require. Franchisee shall be bound by the terms of **Article 6** of this Agreement in regard to all training programs.

e. Franchisee shall not sell any service or product except the Services or products, in conjunction with the operation of its Ace Hardware Painting Services Business, unless Franchisee receives the prior written consent of APF.

f. Franchisee shall only use in its Ace Hardware Painting Services Business advertising and promotional material, services, equipment, supplies, and logoed clothing that meet APF's standards and specifications. Advertising materials that are produced or approved by APF for use by Franchisee may be used only in the manner and during the period specified by APF.

g. Franchisee shall purchase and maintain in good operating condition a computer and software meeting APF's minimum specifications, a laser printer. Equipment, signs, Services, products, supplies and other items must be added, eliminated, substituted and modified by Franchisee as soon as practicable in accordance with changes in APF's specifications and requirements.

h. All employees must be in logoed clothing, clean, and neat in appearance.

i. Franchisee shall not alter its Ace Hardware Painting Services Business in any manner that materially affects the image of its Ace Hardware Painting Services Business or the System, except at APF's request or with APF's written approval, and any alterations must strictly conform to the specifications and requirements established or approved by APF.

j. All Services provided Franchisee and its employees, contractors and subcontractors must comply with all applicable federal, state, provincial, or local building codes, laws, ordinances, rules, regulations and other requirements.

k. Franchisee must comply with the "Lead Renovation, Repair, and Painting" rule (40 CFR § 745.226 et seq.; the "**LRRP Rule**") of the U.S. Environmental Protection Agency ("**EPA**"), which currently requires in part that Franchisee have both the Ace Hardware Painting Services Business and at least one representative of the Ace Hardware Painting Services Business certified by the EPA under the LRRP Rule (the "**LRRP Certification**"). Franchisee must obtain the LRRP Certification for the Ace Hardware Painting Services Business and its representative prior to the date of the Initial Training Program provided pursuant to **Section 6.1**. Franchisee must maintain the LRRP Certification for the Ace Hardware Painting Services Business and at least one individual representative at all times during the term of this Agreement. Franchisee must provide evidence of its current LRRP Certification to APF upon initially obtaining the LRRP Certification and thereafter upon any recertification or request of APF.

l. The number and type of employees and contractors, as well as the amount and type of equipment, supplies, inventory and other items on hand at Franchisee's Ace Hardware Painting Services Business must be at all times sufficient to efficiently meet the anticipated volume of business.

m. Franchisee shall at all times comply with, and shall cause its contractors and subcontractors to comply with, all applicable laws, regulations, and ordinances, and shall promptly obtain all licenses and permits, including contractor's licenses, required by any state, provincial, or local licensing authority in all jurisdictions in which Franchisee operates its Ace Hardware Painting Services Business. APF has no obligation to advise Franchisee of any legislative or other legal developments that may affect its Ace Hardware Painting Services Business. Franchisee is solely responsible for inquiring about and becoming familiar with all applicable laws, regulations, and ordinances, and determining those actions required for compliance. Any information APF provides to Franchisee regarding applicable laws, regulations, or ordinances does not relieve Franchisee of its responsibility to consult with its own legal advisor and otherwise take appropriate action to inquire about and comply with applicable laws, regulations, and ordinances.

n. Franchisee shall pay when due all debts and taxes arising in connection with Franchisee's Ace Hardware Painting Services Business, except those duly contested in a bona fide dispute.

o. All dealings and transactions with customers and suppliers must be fair and honest.

p. Franchisee shall at all times utilize APF's business operations software in the operation of its Ace Hardware Painting Services Business. Franchisee shall use the business operations software and no other software for purposes of scheduling, tracking customers, dispatching employees, and any other functions provided by the software. Franchisee shall purchase, at Franchisee's sole cost and expense, all required third-party software and hardware upgrades and shall immediately install the software upgrades on all computer equipment used by Franchisee in operating its Ace Hardware Painting Services Business.

q. Franchisee will obtain website development services for one or more local sites specific to Franchisee's Ace Hardware Painting Services Business and other specified search engine optimization and online marketing services from APF's designated suppliers, and pay APF the Software and Internet Fee defined in **Section 12.5**, as it may be changed from time to time, for these services. The Software and Internet Fee does not cover paid, placed media advertising, which is an additional expense required to be paid to the vendor directly by Franchisee. Franchisee will also use the APF Intranet site in accordance with APF's specifications and the requirements of the System.

r. Franchisee shall use only the e-mail account provided by APF in the operation of its Ace Hardware Painting Services Business, and Franchisee may not use the e-mail account for any purpose not related to the operation of its Ace Hardware Painting Services Business. Franchisee shall check such e-mail account at least once per business day and respond to e-mail messages (as appropriate) within one business day. APF reserves the right to discontinue providing this e-mail account if technology advancements make this obsolete or impractical to provide, or charge a fee for providing the e-mail account. Franchisee shall have a high-speed Internet connection, if available.

s. During the term of this Agreement and for three years after the expiration and termination of this Agreement, Franchisee shall notify APF of any change to Franchisee's (or its Principal Representative's) home and business addresses and telephone numbers.

t. If Franchisee is an individual, Franchisee or an individual designated by Franchisee and approved by APF to be the Franchise Manager shall directly supervise his or her Ace Hardware Painting Services Business. If Franchisee is a corporation or other business entity it shall appoint its Principal Representative to be the Franchise Manager to directly supervise Franchisee's Ace Hardware Painting Services Business. If, in APF's sole judgment, Franchisee has insufficient experience in a business similar to an Ace Hardware Painting Services Business or insufficient experience in business

management in general to operate the Ace Hardware Painting Services Business, Franchisee shall hire a Franchise Manager who shall have direct responsibility for all operations of Franchisee's Ace Hardware Painting Services Business. Any change in the Franchise Manager shall be subject to the prior written approval of APF, which approval may be granted or denied in APF's sole and absolute discretion.

u. Franchisee shall become a member of such franchise, trade or other associations or organizations that, in the opinion of APF, are useful in the operation of an Ace Hardware Painting Services Business. Franchisee shall have the option to become a member of all benefit programs that are offered from time to time by APF to all of its franchisees, if any. The costs of participating in such franchise, trade or other associations and benefit programs shall be borne by Franchisee and its employees (if applicable to the employees).

v. Franchisee will comply with all agreements with third parties related to its Ace Hardware Painting Services Business.

w. Franchisee will at all times during the term of this Agreement own and control the Ace Hardware Painting Services Business authorized hereunder. Upon request of APF, Franchisee will promptly provide satisfactory proof of such ownership to APF. Franchisee represents that the Statement of Ownership, attached hereto as Exhibit IV and incorporated by this reference, is true, complete, accurate and not misleading; and, in accordance with the information contained in the Statement of Ownership, the controlling ownership of the Ace Hardware Painting Services Business is held by Franchisee. Franchisee will promptly provide APF with a written notification if the information contained in the Statement of Ownership changes at any time during the term of this Agreement and will comply with the applicable transfer provisions contained herein. If Franchisee is not an individual, an individual or individuals designated by APF will execute the Guaranty and Assumption of Franchisee's Obligations attached hereto as Exhibit III and incorporated by this reference.

x. Except as prohibited or limited by law, Franchisee shall fully participate in all promotional campaigns, prize contests, special offers, and other programs, whether national, regional, or local in nature (including the introduction of new Services or products, or new franchises or other marketing programs directed or approved by APF), which are prescribed from time to time by APF. Franchisee shall be responsible for the costs of such participation. In addition, Franchisee shall honor any coupons, gift certificates or other authorized promotional offers of APF at Franchisee's sole cost unless otherwise specified in writing by APF. From time to time a promotion may not benefit all franchisees in the System; and if the promotion is not offered in the region, or another unknown hardship arises, APF may, at APF's option, exempt Franchisee and/or other franchisees on a case-by-case basis.

y. Franchisee will have its Ace Hardware Painting Services Business' phone answered during regular business hours by a live person. Franchisee may enlist the services of an answering service.

z. Franchisee will conduct a background check of all employees, contractors, and subcontractors hired or engaged by Franchisee and utilized in its Ace Hardware Painting Business including, but not limited to, all Authorized Representatives. In conducting these background checks, Franchisee shall abide by all applicable laws, rules and regulations, including, but not limited to, the Fair Credit Reporting Act (and the state equivalents, if any) and/or any employment laws, rules, regulations or ordinances. It is Franchisee's responsibility to make sure that no employee, contractor or subcontractor enters a customer's home or business if such person has not successfully completed the background check process, as determined in Franchisee's sole discretion.

aa. Franchisee and its Principal Representative, Franchise Manager, employees and contractors shall at all times present themselves in a professional manner to all customers or clients, and shall refrain from the use of illegal drugs or the consumption of alcohol during normal business hours or during any time that the same are performing services for clients or customers.

bb. Franchisee shall not engage in any activities not covered by Franchisee's liability insurance or workers compensation insurance.

cc. Franchisee shall not engage in any trade, practice or other activity that is harmful to APF's goodwill or reflects unfavorably on APF's reputation, or that constitutes deceptive or unfair competition.

dd. Franchisee shall at all times employ a third party call center service approved by APF to receive calls and provide other customer services for Franchisee's Ace Hardware Painting Services Business.

ee. Franchisee will comply with all laws prohibiting, or otherwise related to, bribery of or other illegal payments to any government, government agency, public international organization, or political party, or any of their officials, employees, candidates, or other representatives.

ff. Franchisee must accept credit and debit cards from customers of its Ace Hardware Painting Services Business. Franchisee shall not charge its customers any additional fees or service charges if they elect to pay by credit or debit card. The Payment Card Industry ("PCI") requires all companies that process, store, or transmit credit or debit card information to protect the cardholders' information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, Franchisee shall be PCI compliant by following and adhering to then-current PCI DSS, currently found at www.pcisecuritystandards.org, or any similar or subsequent standard for the protection of cardholder data throughout the term of this Agreement. Franchisee's Ace Hardware Painting Services Business shall be in compliance with PCI DSS at all times.

gg. Franchisee expressly authorizes APF and its approved suppliers to contact Franchisee by e-mail, telephone, mail, or any other means related to any aspect of the Ace Hardware Painting Services Business, authorized Services, this Agreement, or the System, for so long as this Agreement remains in effect. Franchisee expressly authorizes APF to disclose Franchisee's contact information to APF's approved and designated suppliers to enable such suppliers to contact Franchisee. Franchisee acknowledges that these communications are necessary to facilitate and keep Franchisee updated regarding the ongoing franchise relationship.

hh. Franchisee agrees that APF will have the right to use the likeness, including photographs or videos containing images, of: (a) Franchisee; (b) if Franchisee is a business entity, Franchisee's owners; (c) Franchisee's employees; (d) the Business Location premises; and (e) any operations of Franchisee's Ace Hardware Painting Services Business; each for any purposes relating to the promotion or marketing of the System or Marks. Such likeness may be used in any and all publications or promotional materials of APF, including but not limited to APF's website, social media accounts, and printed and digital publications. Franchisee agrees and understands that any such image and resulting promotional material will become the property of APF and will not be returned. Franchisee agrees and irrevocably authorizes APF to edit, alter, copy, exhibit, publish or distribute any such images for any lawful purpose. Franchisee agrees and waives any rights to royalties or any other compensation related to our use of any such images. Franchisee agrees to hold harmless and forever discharge APF from all claims, demands, and causes of action which Franchisee or its owners may have in connection with this authorization.

11.2. Requirements for Entity Franchisees.

If Franchisee is a corporation, partnership, limited liability company or other business entity, the following additional conditions must be met, along with any other conditions as may be established by APF for entity franchisees:

a. Contemporaneously with the business entity acquiring the franchise rights, thereafter upon the issuance or transfer of any ownership interests in the business entity and the appointment or election of any person as director, officer, member or manager of the business entity, and at any other time requested by APF, the shareholders, members, partners, other owners, directors, officers, or managers (as applicable), and any other individuals designated by APF will execute the Guaranty and Assumption of Franchisee's Obligations attached hereto as Exhibit III and incorporated herein by reference, personally guaranteeing full payment and performance of Franchisee's obligations to APF and individually undertaking to be bound, jointly and severally, by all the terms of this Agreement.

b. No shares in the capital of such corporation or other interest in the business entity shall be issued nor shall Franchisee directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, sell, assign, transfer, convey, donate, pledge, mortgage or otherwise encumber any such shares or offer or attempt to do so or permit the same to be done without APF's prior written consent. Such actions shall be deemed a Transfer, as defined in **Section 17.2**, and subject to the requirements of **Article 17** below.

c. The business entity shall maintain stop transfer instructions against the Transfer of ownership on its records subject to the restrictions of this Agreement and shall have all outstanding certificates of ownership endorsed with the following legend printed conspicuously upon the face of each certificate:

The transfer of the shares represented by this certificate is subject to the terms and conditions of a certain Franchise Agreement with Ace Painting Franchising, LLC.

d. The articles of incorporation or organization and by-laws, operating agreement or other governing documents of the business entity shall provide that its objectives or business is confined exclusively to the operation of the Ace Hardware Painting Services Business as provided for in this Agreement, and recite that the issuance and Transfer of any ownership interest in the business entity is restricted by the terms of this Agreement. Copies thereof shall be furnished to APF upon request.

11.3. New Services or Products.

On at least three months prior written notice, APF may specify a new Service or product as a required Service or product in Franchisee's market area. The new Service or product will not be deemed a required Service or product if Franchisee demonstrates to APF's satisfaction either of the following situations will exist:

a. Franchisee will incur a substantial capital improvement not contemplated by this Agreement or in the Operations Manual, thereby resulting in a material hardship to Franchisee. For the purposes of this Subsection, the parties agree that a capital improvement in excess of 10 percent of the Franchisee's Gross Revenue for the prior year will be considered a substantial capital improvement; or

b. Franchisee will incur a material reduction in sales or profitability therefrom. For the purposes of this Subsection, the parties agree that an expected 20 percent decrease in sales from the

average sales in the prior 12 months will be considered a material reduction in sales, and a 10 percent reduction in profitability from the average profitability during the previous 12 months will be considered a material reduction in profitability.

Subject to the foregoing, any new or additional required Services or products introduced into the System by APF must be offered for sale on a continuing basis as part of Franchisee's Ace Hardware Painting Services Business at the time and in the manner required by APF, and all equipment, products, supplies and other items necessary to add new required Services or products must be acquired, installed, and utilized as required by APF.

12. CONTINUING FEES AND PAYMENTS

12.1. Royalty Fee.

Franchisee shall pay to APF a continuing royalty fee equal to 6 percent of Franchisee's Gross Revenues, as defined below, subject to an annual reconciliation based on the applicable Minimum Annual Gross Revenues, as defined below (the "**Royalty Fee**"). Franchisee shall not subordinate to any other obligation its obligation to pay the Royalty Fee or any other fee or charge hereunder.

12.2. National Brand Fees.

Franchisee shall remit 2 percent of Franchisee's Gross Revenues, subject to an annual reconciliation based on the applicable Minimum Annual Gross Revenues (the "**National Brand Fee**") to the Ace Hardware Painting Services National Brand Fund established by APF for Franchisee's country (the "**National Fund**").

12.3. Gross Revenues Defined.

"**Gross Revenues**" means, except as set forth below, the total of all receipts derived from the operation of Franchisee's Ace Hardware Painting Services Business, including all painting and painting related work done by employees, contractors or subcontractors, whether the receipts are evidenced by cash, credit, or checks, or exchanged for services, materials, service charges, property or other means of exchange. This includes amounts collected for both labor and materials. Gross Revenue does not include the amount of any tax imposed by any federal, state, provincial, municipal or other governmental authority directly on sales and collected from customers, provided that the amount of any such tax is shown separately and in fact paid by Franchisee to the appropriate governmental authority. Gross Revenues also does not include the amount of any discounts given to customers, to the extent the customers do not pay such amounts to Franchisee. Gross Revenues shall be deemed received by Franchisee at the time the Services and products from which they were derived are delivered or rendered or at the time the relevant sale takes place, whichever occurs first, regardless of whether final payment (e.g., collection on a customer's personal check) actually has been received by Franchisee; provided, however, if a job is partially completed at the end of any month, and the job represents less than 16 hours of labor, the Gross Revenues generated by the job will not have to be reported, and the Royalty Fee and National Brand Fee, as each are defined above, will not have to be paid, until the following month; provided further that any job which is scheduled to extend beyond the second month following commencement of the job will need to be settled with the customer once during each month, the Gross Revenues will have to be reported, and the Royalty Fee and National Brand Fee paid during each month in accordance with the payment terms set forth in **Section 12.6.a**. Gross Revenues consisting of property or services shall be valued at the retail prices applicable and in effect for the Services and products at the time that they are received. Cash refunded and credit given to customers, and any receivable uncollected from customers more than 120 days after billing, may be deducted in computing Gross Revenues only to

the extent that the receivable was previously included in Gross Revenues on which a Royalty Fee or National Brand Fee was paid.

12.4. Minimum Annual Gross Revenues.

Franchisee must achieve the Gross Revenues requirements set forth in the Addendum on an annual basis (the “**Minimum Annual Gross Revenues**”). The amount of the Minimum Annual Gross Revenues is determined based on the years of operations of Franchisee. The Minimum Annual Gross Revenues will not change if there is an increase or decrease in population in the Territory during the term of this Agreement. Within 60 days following the end of each Operating Year, as defined below, APF will compute Franchisee’s total Gross Revenues for the just completed Operating Year. If Franchisee fails to achieve the Minimum Annual Gross Revenues in any Operating Year, Franchisee shall pay APF the Royalty Fee and National Brand Fee based on the Minimum Annual Gross Revenues instead of its actual Gross Revenues. APF will invoice Franchisee for the difference between the amount of Royalty Fee and National Brand Fee due based on the Minimum Annual Gross Revenues, less the actual Royalty Fee and National Brand Fee paid by Franchisee to APF during the just completed Operating Year, which amount shall be due within 15 days following invoicing. If Franchisee’s actual Gross Revenues are less than the applicable Minimum Annual Gross Revenue in two consecutive Operating Years, or in any three Operating Years during the term of this Agreement, then APF shall have the right to (i) terminate this Agreement, (ii) award additional franchises within the Territory or otherwise permit another franchisee to operate within the Territory, (iii) reduce the geographic size of the Territory, or (iv) any combination thereof, after providing notice to Franchisee in accordance with **Section 18.2.f** below. APF has the right, in its sole discretion and on a case-by-case basis, to waive the obligation of Franchisee or any other franchisee of APF to meet the Minimum Annual Gross Revenues requirement or to pay any fees or make expenditures calculated based on the applicable Minimum Annual Gross Revenues. Franchisee acknowledges that APF is entering into this Agreement with the expectation that it will receive Royalty Fees based on the greater of Franchisees actual Gross Revenues or the Minimum Annual Gross Revenues over the full term of this Agreement. The term “**Operating Year**” means a calendar year beginning on the commencement date set forth in the Addendum and ending on the anniversary date thereof, and each subsequent calendar year thereafter.

12.5. Software and Internet Fee.

Franchisee shall be assessed a monthly software and Internet fee (“**Software and Internet Fee**”) at APF’s current rate for each month, which shall be set forth in the Operations Manual or in other written notices from APF, and which may be changed from time to time in APF’s sole discretion upon 30 days prior written notice. The Software and Internet Fee is paid for use of APF’s business operations software, e-mail, location website, and online marketing services, which includes website development services, search engine optimization, and an e-mail account for national and local use. The Software and Internet Fee does not cover paid, placed media advertising, which is an additional expense required to be paid to the vendor directly by Franchisee.

12.6. Payments to APF.

a. Franchisee shall pay the Royalty Fees and National Brand Fees to APF no later than the 23rd day of each month based on the prior month’s Gross Revenues, starting with the month following the month of Franchisee’s first sale through its Ace Hardware Painting Services Business, or at such other frequency as APF may determine in its sole discretion upon written notice to Franchisee. The amount of such payments shall be determined based on the Gross Revenues of Franchisee as calculated based on the information provided through APF’s business operations software over the applicable month. If any of the monthly, quarterly, or annual reports of Gross Revenues required to be submitted by Franchisee

pursuant to **Section 16.1.a** below reveal an underpayment of Royalty Fees, National Brand Fee, or both, Franchisee will immediately pay to APF the amount of such underpayment. If any such reports show an overpayment of Royalty Fees, National Brand Fee, or both, APF will provide a credit to Franchisee's account in an amount equal to the amount of the overpayment.

b. Franchisee shall pay the Software and Internet Fee once a month in advance on the first day of each calendar month, and as specified by APF, beginning in the first full calendar month after Franchisee has commenced operations.

c. Unless directed otherwise, Franchisee shall remit all fees and other amounts due to APF hereunder via electronic funds transfer. Franchisee agrees to comply with procedures specified by APF and/or perform such acts and deliver and execute such documents, including authorization for direct debits from Franchisee's checking or savings accounts, as may be necessary to assist in or accomplish payment by such method. Under this procedure, Franchisee shall authorize APF to initiate debit entries and/or credit correction entries to the designated banking account for payments of fees and other amounts payable to APF and any interest charge due thereon. Franchisee shall make funds available to APF for withdrawal by electronic transfer no later than the due date for payment therefore, and shall at all times maintain a minimum balance of \$4,000 in the designated account, which shall be available to APF to cover any required payments to APF. Franchisee agrees that any time an electronic funds transfer transaction is not honored, Franchisee shall pay APF a returned electronic funds transfer fee of \$100, in addition to any applicable late fees and interest in accordance with **Section 12.7**. If Franchisee has not timely reported the Gross Revenues to APF or submitted information to APF's business operations software as required for any applicable period on which a fee is based, then APF shall be authorized, at APF's option, to debit Franchisee's account in an amount equal to (a) the fees transferred from Franchisee's account for the last applicable period for which a report of the Gross Revenues was provided to APF or for which information was submitted through APF's business operations software as required hereunder; or (b) the amount due based on information retrieved from the computer system approved or required by APF. Such payments shall be deemed the minimum amount of fees due for failure to timely remit all fees and file the required reports, and Franchisee shall remain liable for all fees in excess of such amounts once the actual Gross Revenues for the applicable period are determined. APF may require Franchisee to pay by means other than electronic funds transfer from time to time, whenever APF deems appropriate, and Franchisee agrees to comply with APF's alternate payment instructions and to execute any documents in conjunction with such payment means.

d. If Franchisee is unable to operate due to damage or loss to the Business Location caused or created by a casualty, act of God, condemnation, or other condition over which Franchisee has no control, then APF, in its sole discretion, may elect to waive the Royalty Fee for a period no greater than 120 days commencing with the month in which Franchisee gives APF notice of the damage or loss.

12.7. Late Fees; Denied ACH Processing; Interest.

To encourage prompt payment and to cover the costs and expenses involved in handling and processing late payments or denied or rejected requests for ACH payments, Franchisee shall also pay to APF, upon demand, a late payment charge of \$75 per overdue report or fee owed to APF, and \$100 for each ACH payment request that is denied or rejected by Franchisee's bank or other financial institution, plus interest equal to the lesser of (i) the maximum legal rate of interest then charged on open accounts or (ii) 18 percent per annum, on all payments due to APF during the period of time said payments are due and unpaid. This same interest rate shall apply as the post-judgment interest rate, regardless of the applicable statutory rate, in the event of any legal actions related to this Agreement.

12.8. Nonrefundable Fees.

Except as specifically contemplated in this Agreement, all fees once paid, shall be nonrefundable in all circumstances.

13. ADVERTISING

13.1. Approval of Advertising.

APF will make available to Franchisee all advertising and promotion materials and programs for its Ace Hardware Painting Services Business that are developed by or for APF. APF will provide camera-ready artwork to Franchisee. Franchisee may also develop advertising materials for Franchisee's own use, at Franchisee's own cost. Before using any promotional and advertising materials, Franchisee will submit to APF or APF's designated agency, for APF's prior written approval, all information pertaining to such promotional materials and advertising developed by Franchisee; including, but not limited to, Yellow Pages or other telephone related materials, print ads, radio and television scripts, Internet advertising, social media advertising, or any promotional creative materials. In the event written approval or disapproval of any such advertising and promotional material has not been given by APF to Franchisee within seven business days from the date such information has been received by APF, the materials will be deemed approved as submitted. Franchisee agrees to comply with all of APF's advertising standards and specifications. In particular, APF may require Franchisee to acquire some or all advertising services and products only from media or advertising agencies or other vendors designated as approved suppliers by APF. Franchisee shall display all required promotional materials, signs and other marketing materials in its Ace Hardware Painting Services Business in the manner prescribed by APF. In all advertising and promotional materials, Franchisee must display its business name only in obvious conjunction with the phrase, "Locally Owned and Independently Operated Franchise of Ace Painting Franchising, LLC" or similar statement approved by APF.

13.2. Start-up Advertising.

Franchisee acknowledges that local advertising is required to notify the public of its Ace Hardware Painting Services Business. As such, Franchisee shall advertise and promote the opening of its Ace Hardware Painting Services Business at Franchisee's own expense. However, APF will recommend the type, manner, and time period for such advertisements, will designate required or recommended suppliers for such advertisements, and will provide other assistance with Franchisee's start-up advertising. During the period beginning 30 days prior to opening Franchisee's Ace Hardware Painting Services Business and ending at the end of Franchisee's second full month of operation, Franchisee shall spend a minimum of \$7,500 and a maximum of \$9,000 on advertising and promotion of its Ace Hardware Painting Services Business, which amount shall be paid directly to vendors developing and providing the start-up advertising campaign.

13.3. Minimum Individual Marketing.

a. Beginning with the third full month of operation and during the remaining term of this Agreement, Franchisee shall spend an amount equal to or greater than the applicable "**Minimum Individual Marketing Expenditure**" on local marketing and promotion. The Minimum Individual Marketing Expenditure shall be in the amount of \$15,000 for the period commencing on the 3rd full month of operation of the Ace Hardware Painting Services Business through the end of the 12th full month of operations, \$24,000 during the year from the 13th month through 24th month of operations of the Ace Hardware Painting Services Business, and \$30,000 for each full year thereafter for the remaining term of this Agreement. These amounts are in addition to the National Brand Fee that Franchisee will pay to

APF. APF will review Franchisee's spend amounts each six months and if Franchisee is not on pace to meet or exceed the required Minimum Individual Marketing Expenditure, Franchisee must increase its Minimum Individual Marketing Expenditure for the second six months of the applicable 12-month period to meet the required annual Minimum Individual Marketing Expenditure. Any expenditures on online marketing services and products acquired through a third party vendor shall count toward this Minimum Individual Marketing Expenditure. APF may direct that Franchisee pay all or a portion of its Minimum Individual Marketing Expenditure to a Local Advertising Group, as defined below.

b. Franchisee shall submit documentation of Franchisee's marketing expenditures at such times and in such form as APF designates. If Franchisee fails to spend at least the Minimum Individual Marketing Expenditure on local marketing and promotion for three consecutive months, APF shall have the right to create a marketing plan on behalf of Franchisee, at the expense of Franchisee. This plan will remain in force for not less than six months at which time Franchisee may be permitted to resume its own marketing pursuant to the requirements set forth in this Agreement. APF reserves the right to charge Franchisee for the creation and management of the plan. If Franchisee again fails to make any required marketing expenditures, APF shall have the right to require Franchisee to contribute the amount of any deficiency to the National Fund to be used by APF for general marketing and promotion or declare Franchisee in default of this Agreement.

13.4. Local Advertising Group.

a. APF may establish a regional advertising cooperative ("**Local Advertising Group**") in a region that includes Franchisee's Territory. If a Local Advertising Group is established that includes Franchisee's Territory, Franchisee shall join and participate in it. Each of APF's company-owned and affiliate-owned operations (if any) offering Services similar to an Ace Hardware Painting Services Business within the region for which the Local Advertising Group is established will make contributions to the Local Advertising Group equivalent to the contributions required of Franchisee.

b. If APF directs that Franchisee join a Local Advertising Group, Franchisee will pay all or part of its Minimum Individual Marketing Expenditure to the Local Advertising Group as directed by APF.

c. The rules of the Local Advertising Group must be in writing and established by its members, but must be submitted for prior approval to APF (and shall be deemed approved 30 days after submission if APF takes no action). All Local Advertising Groups shall provide quarterly financial reports to APF.

13.5. National Brand Fund.

a. The National Brand Fee set forth in **Section 12.2** of this Agreement will be deposited in the National Fund. No action taken by Franchisee or any Local Advertising Group shall diminish Franchisee's obligation to pay the National Brand Fee to the National Fund.

b. The creation of advertising materials and provision of other advertising and marketing services will be provided to Franchisee through the National Fund. The National Fund shall be maintained and administered by APF or APF's designee, as follows:

(i) APF or its designee, with recommendations from the Franchisee Advisory Council, as defined below, if established by APF, will oversee and direct all advertising programs and have sole discretion over creative concepts, materials and media used in such programs, including the placement and allocation of advertising. APF or its designee will use the National Fund to conduct

system-wide advertising, and/or, if Local Advertising Groups are developed, to conduct regional or local advertising on Franchisee's behalf. However, APF or its designee cannot and does not ensure that any particular franchisee will benefit directly or pro rata from the placement of advertising. APF may charge Franchisee for any marketing materials created or produced for its franchisees. In that event, Franchisee shall pay APF upon receipt for any marketing materials purchased from APF unless APF agrees to different terms.

(ii) For each of APF's company-owned and affiliate-owned operations (if any) offering Services and products similar to an Ace Hardware Painting Services Business, APF will make contributions to the National Fund equivalent to the contributions required of Franchisee.

(iii) APF or its designee, with recommendation from the Franchisee Advisory Council, if established by APF, will administer and control the National Fund and will have the absolute and unilateral right to determine how, when and where the monies in the National Fund will be spent. The National Fund will be used to promote the Services and/or products sold by franchisees and company-owned and affiliate-owned operations and to provide media placement for national recruitment of painters. The National Fund will not be used to sell additional franchises; except that it may include a brief statement that ACE HARDWARE PAINTING SERVICES franchise locations are available and the contact information for acquiring information about ACE HARDWARE PAINTING SERVICES franchises. All sums paid by Franchisee to the National Fund shall not be used to defray any of APF's general operating expenses.

(iv) If APF places advertising rather than engage an advertising agency for this purpose, APF shall be entitled to receive a reasonable fee for such services, which will not exceed the highest rate charged for similar services by any recognized advertising agency not owned in whole or part by APF or its officers, directors, or employees (in addition to reimbursement for costs incurred).

(v) It is APF's intent that all contributions to the National Fund will be expended for advertising and promotional purposes during APF's fiscal year within which contributions are made. However, any monies not expended in the fiscal year in which they were contributed will be applied and used for National Fund expenses in the following year.

(vi) Although APF intends the National Fund to be of perpetual duration, APF has the right to terminate the National Fund. APF will not terminate the National Fund, however, until all monies in the National Fund have been expended for advertising and promotional purposes.

(vii) An unaudited accounting of the National Fund contributions and expenditures will be prepared annually and will be made available to Franchisee upon request. At APF's option, any such annual accounting may include an audit of the contributions and expenditures of the National Fund prepared by an independent certified public accountant selected by APF and prepared at the expense of the National Fund.

(viii) APF has no fiduciary obligation to Franchisee in connection with the operation of the National Fund. APF will not be liable for any act or omission with respect to the operation of the National Fund or the use of the National Fund that is consistent with this Agreement and is done in good faith.

(ix) APF may maintain a separate National Brand Fund for its franchisees located in other countries. APF reserves the right to combine the National Fund with the National Brand Fund for any other country, to be used to promote the Services and/or products sold by franchisees on an international basis. The Franchisee Advisory Council, if established by APF, may also be combined with

the Franchisee Advisory Council established in any other country or region of the world. APF has the right, in its sole discretion, to choose not to collect a National Brand Fee from franchisees in other countries or regions of the world, and to not maintain an advertising fund for those franchisees. APF's choice to collect or to not collect a National Brand Fee or to establish or to not establish an advertising fund in other countries or regions of the world will not in any way affect Franchisee's obligation to pay the National Brand Fee.

Once Franchisee makes contributions to the National Fund, all such monies will be used as required by this Section and will not be returned to Franchisee.

13.6. Franchisee Advisory Council.

APF may establish a council of then current franchisees of APF to advise and make suggestions to APF regarding advertising issues or such other issues as APF may authorize. APF calls this council the "**Franchisee Advisory Council.**" In APF's sole discretion, APF may establish separate Franchisee Advisory Councils for different countries, or different regions of the world. While APF will consider all recommendations made by the Franchisee Advisory Council, once established, APF shall retain the right to direct and have sole discretion over such advertising or other decisions. APF reserves the right to establish all rules and regulations related to the Franchisee Advisory Council, and once established, may terminate or modify the format of the Franchisee Advisory Council, in APF's sole discretion.

14. QUALITY CONTROL

14.1. Standards and Specifications.

APF will make available to Franchisee, via the Operations Manual, standards and specifications for materials and services used by, products sold through, and Services offered through, Franchisee's Ace Hardware Painting Services Business, which standards and specifications APF reserves the right to change upon 30 days prior written notice to Franchisee. These standards and specifications are designed to protect APF's reputation and the goodwill of the Marks, they are not designed to control the day-to-day operations of Franchisee's Ace Hardware Painting Services Business. APF and APF's representatives will have the right to discuss with Franchisee, or other personnel Franchisee may designate, including the Franchise Manager, all matters that may pertain to compliance with this Agreement and with APF's standards, specifications, requirements, instructions and procedures. APF may take photographs of Franchisee's completed work as it relates to its Ace Hardware Painting Services Business. Franchisee shall in all respects cooperate with APF's rights under this Agreement. APF also reserves the right to contact any or all of Franchisee's customers, painters, employees, suppliers and other service professionals for quality control, market research and such other purposes as APF deems appropriate.

14.2. Restrictions on Services and Materials.

Franchisee acknowledges that Ace Hardware Corporation and its network of member-retailers (collectively, the "**Ace Suppliers**") are approved suppliers of certain goods, services, supplies, fixtures, equipment, and inventory, including paint and paint supplies, used in Franchisee's Ace Hardware Painting Services Business. If an Ace Supplier is located in or near Franchisee's Territory, Franchisee is required to purchase those goods and services, as they are designated from time to time, from an Ace Supplier, but only when the items are in stock or readily available and competitively priced. This includes all of Franchisee's liquid paint needs, including Ace private label or Benjamin Moore® paint, which are the types of paint Franchisee is required to use in Franchisee's Ace Hardware Painting Services Business unless a customer requires Franchisee to use a different brand of paint. APF reserves the right to require approval of any other products, supplies, equipment, services, and other materials used in connection with

Franchisee's Ace Hardware Painting Services Business, or the suppliers of such materials or services. APF may require that Franchisee submit specifications, information or samples of the items for APF's review to determine if they meet APF's specifications and standards set forth in the Operations Manual as to quality, content, composition and service. APF does not currently require that a fee be paid to secure supplier approval; however, APF may require a fee in the future, and in its sole discretion, APF may require the supplier to reimburse APF for any expenses APF incurs in determining if the supplier meets its specifications and standards. APF may revoke its approval of any supplier previously approved by written notice to the supplier and Franchisee, if Franchisee is using that supplier. APF does, however, highly recommend that Franchisee purchase printed materials and other specialty products identified from time to time from the suppliers recommended by APF. Franchisee expressly acknowledges and agrees that APF may derive revenue from Franchisee's purchases or leases of equipment from current or future suppliers, and may retain such revenue for APF's use.

15. TRADEMARKS, TRADE NAMES AND PROPRIETARY INTERESTS

15.1. Marks.

Franchisee acknowledges that APF's ultimate parent company, Ace Hardware Corporation ("Ace Hardware"), is the exclusive owner of the service mark, ACE HARDWARE PAINTING SERVICES™ and certain other Marks. Ace Hardware has granted APF the exclusive license to use these Marks. Franchisee further acknowledges that Franchisee's right to use the Marks is derived solely from this Agreement and is limited to the operation of its Ace Hardware Painting Services Business in accordance with this Agreement. Franchisee agrees that its usage of the Marks and any goodwill established thereby shall inure to the exclusive benefit of APF. Franchisee shall not use the Marks in any manner calculated to represent that it is the owner of the Marks. Franchisee agrees not to contest or oppose, nor to assist anyone else to contest or oppose, APF's application for, or registration of, any of the Marks, or the validity or ownership of the Marks. Franchisee agrees not to directly or indirectly do or cause to be done, whether by commission or omission, any act, that may in any way jeopardize or adversely affect the validity or distinctiveness of the Marks, or the title of Ace Hardware and APF thereto. Franchisee agrees that it will, without charge to APF, upon request by APF or its representatives, do all things and execute all documents that may at any time be necessary or desirable to protect or ensure the validity and distinctiveness of the Marks and to ensure the title of Ace Hardware and APF thereto. Franchisee acknowledges that all references to APF's Marks includes those Marks licensed to it by Ace Hardware.

15.2. No Use of Other Marks.

Franchisee agrees to use the mark "ACE HARDWARE PAINTING SERVICES" as the sole identification of its Ace Hardware Painting Services Business. Franchisee agrees that it shall affix a notice in a conspicuous location in or upon the Business Location with content and format acceptable to APF, that it is an independent Franchisee of APF, and as such, an authorized user of the Marks, and that the owner of the Marks is APF.

15.3. Licensed Methods.

Franchisee acknowledges that APF owns and controls the distinctive plan for the establishment, operation and promotion of Ace Hardware Painting Services Businesses and all related Licensed Methods. Franchisee acknowledges that much of the information contained in APF's Operations Manual, and any other manual or nonpublic written information about APF, and other confidential information provided to Franchisee by APF, constitutes trade secrets of APF. Franchisee acknowledges that APF has valuable rights in and to such trade secrets. Franchisee further acknowledges that it has not acquired any

right, title or interest in the Licensed Methods, except for the right to use the Licensed Methods in the operation of the Ace Hardware Painting Services Business as it is governed by this Agreement.

15.4. APF's Rights to New Ideas.

All enhancements and improvements in the Licensed Methods developed by Franchisee shall be and become the sole and absolute property of APF. APF may incorporate such improvements or enhancements into the Licensed Methods and shall have the sole and exclusive right to copyright, register or patent such improvements in APF's own name and Franchisee shall have no right to use such enhancements and improvements, except as set forth in this Agreement. Franchisee shall promptly disclose all such enhancements and improvements to APF (whether or not requested by APF) in such detail as APF may from time to time request. Franchisee shall, without further consideration, but at the expense of APF, execute such documents and do such acts as may be necessary for APF to copyright, register or patent the enhancements or improvements in APF's own name in any country.

15.5. Copyrights.

Franchisee and APF acknowledge and agree that: (a) APF may authorize Franchisee to use certain copyrighted or copyrightable works (the "**Copyrighted Works**"); (b) the Copyrighted Works are the valuable property of APF; and (c) Franchisee's rights to use the Copyrighted Works are granted to Franchisee solely on the condition that Franchisee complies with the terms of this Section. Franchisee acknowledges and agrees that APF owns or is the licensee of the owner of the Copyrighted Works. Such Copyrighted Works include, but are not limited to, APF's software programs (including the business operations software program), the Operations Manual, advertisements, and promotional materials, and may include all or part of the System, trade dress and other portions of an Ace Hardware Painting Services Business. Franchisee acknowledges that this Agreement does not confer any interest in the Copyrighted Works upon Franchisee, other than the right to use them in the operation of its Ace Hardware Painting Services Business in compliance with this Agreement. If APF authorizes Franchisee to prepare any adaptation, translation or work derived from the Copyrighted Works, or if Franchisee prepares any Copyrighted Works such as advertisements, poster or promotional material, Franchisee agrees that such adaptation, translation, derivative work or Copyrighted Work shall constitute a "work made for hire" as that term is defined in the Copyright Act, 17 U.S.C. § 101 et seq., and shall become the property of APF, and Franchisee assigns all its right, title and interest therein to APF (or such other person or entity identified by APF). Franchisee agrees to execute any documents, in recordable form, which APF determines are necessary to reflect such ownership. Franchisee shall submit all such adaptations, translations, derivative works and Copyrighted Works to APF for approval prior to use. Franchisee shall ensure that all Copyrighted Works used hereunder shall bear an appropriate copyright notice as specified by APF and specifying that APF is the owner of the copyrights therein.

15.6. Infringement.

Franchisee agrees to notify APF in writing of any possible infringement or illegal use by others of a trademark, service mark, logo, or other commercial symbol that is the same as or confusingly similar to any of the Marks, or the Copyrighted Works that comes to its attention. Franchisee acknowledges that APF will have the right, in its sole discretion, to determine whether any action will be taken on account of any possible infringement or illegal use. APF may commence or prosecute such action in APF's own name or may join Franchisee as a party to the action, in either event at APF's expense, if APF determines it to be necessary for the continued protection and quality control of the Marks, Licensed Methods or Copyrighted Works. Franchisee agrees that, without a fee or other charge to APF, it shall fully cooperate and participate with APF in any such litigation.

15.7. Franchisee's Business Name.

Franchisee acknowledges that APF has a prior and superior claim to the Marks and APF's corporate name and trade names. Franchisee will not use the designation "ACE HARDWARE PAINTING SERVICES," "ACE HARDWARE," "ACE," "AHPS," or any portions thereof, or any other derivative using "Ace" in the legal name of its corporation, partnership or other business entity, nor use any of such names, the Marks or trade names, or portions thereof, as part of an electronic mail address or on any sites on the Internet, without the prior written consent of APF, which consent may be conditioned upon Franchisee conditionally assigning the name to APF exercisable upon a default by Franchisee under, or expiration or other termination of, this Agreement. Any sites established by Franchisee on the Internet and any changes subsequently made to those sites must be approved by APF prior to their establishment or change, which consent may be withheld for any reason. Franchisee also agrees not to register or attempt to register any of the above names, the Marks or the trade names of APF, or any portions thereof as a trademark, service mark, or domain name on the Internet. During the term of this Agreement, APF may, however, require that Franchisee post a sign at its Business Location, and include a reference on its letterhead, contracts, business cards and/or other items, stating that it is an "authorized franchisee of Ace Painting Franchising, LLC," or other language specified by APF. If local laws require that Franchisee file an affidavit or other registration indicating that it is conducting business under an assumed, fictitious or trade name, Franchisee shall state in such filing or affidavit that the same is made "as an authorized franchisee of Ace Painting Franchising, LLC."

15.8. Change of Marks.

Franchisee shall use and display the Marks and Copyrighted Works only as specified by APF. If it becomes advisable at any time in the opinion of APF for Franchisee to modify or discontinue use of any of the Marks or Copyrighted Works, or to use one or more additional or substitute names, Marks or Copyrighted Works, Franchisee agrees to do so at its cost, and the sole obligation of APF in any event shall be to reimburse Franchisee for its reasonable out-of-pocket costs of changing the main identifying sign and any other significant signage of its Ace Hardware Painting Services Business used to identify the Business Location as an ACE HARDWARE PAINTING SERVICES franchise.

15.9. Data and Other Business Records.

Franchisee acknowledges and agrees that APF owns all data and records with respect to customers, suppliers, independent contractors, subcontractors, and other service professionals, of, and/or otherwise related in any way to, Franchisee's Ace Hardware Painting Services Business; including, without limitation, all databases (whether in print, electronic or other form) with customer and potential customers, names, addresses, phone numbers, e-mail addresses, and customer purchase records, and all other records contained in the databases (collectively, "**Business Records**"). APF hereby grants Franchisee a license to use such Business Records solely for the purpose of operating the Ace Hardware Painting Services Business hereunder. Franchisee further acknowledges and agrees that, at all times during and after the termination, expiration or cancellation of this Agreement, APF may access such Business Records, and may process, utilize, transfer, share, or analyze such Business Records as APF determines to be in the best interest of the System, in its sole discretion, including without limitation, by contacting any or all of Franchisee's customers, independent contractors, subcontractors, and other service professionals for any purposes APF deems appropriate, in its sole and absolute discretion. Notwithstanding the foregoing, Franchisee will own all records concerning Franchisee's employees, which are not deemed to be part of the Business Records hereunder.

16. REPORTS, RECORDS AND FINANCIAL STATEMENTS

16.1. Franchisee Reports.

a. Franchisee will establish and maintain at its own expense bookkeeping and accounting systems that utilizes an accrual method of accounting and otherwise conforms to the specifications that APF may prescribe from time to time. Franchisee will supply to APF such reports in a manner and form as APF may from time to time require, including monthly profit and loss statements in a format prescribed by APF, and, if requested by APF, weekly, semi-monthly and/or monthly reports that are to be computer generated and completed on a form and in a format as may be prescribed by APF. Within 20 days of the end of each calendar month, calendar quarter, and calendar year, during the term of this Agreement, Franchisee shall provide APF monthly reports, quarterly reports, and annual reports of Gross Revenues, respectively, as prescribed by APF.

b. Franchisee shall submit to APF current financial statements and other reports as APF may request to evaluate or compile research and performance data on any operational aspect of its Ace Hardware Painting Services Business. Franchisee authorizes APF to utilize this information to prepare an earnings claim, to release this information as necessary to substantiate any earnings claim made by APF, and to share such information in summary form as APF deems necessary or desirable to share with other franchisees at any annual franchise meeting or other franchise business meetings.

c. Upon the request of APF and within 20 days of such request, Franchisee shall provide APF an electronic copy of its QuickBooks files as well as the administrative login, password, and such other information to permit APF to access such files.

d. Franchisee shall submit to APF current financial statements and other reports as APF may request to evaluate or compile research and performance data on any operational aspect of its Ace Hardware Painting Services Business. APF may also pull this data from other reports and information provided by Franchisee hereunder. Franchisee authorizes APF to utilize this information to prepare a financial performance representation, to release this information as necessary to substantiate any financial performance representation made by APF, to share such information in summary form as APF deems necessary or desirable to share with other franchisees at any annual convention or other franchise business meetings, or in any other manner and with any other parties that APF deems appropriate without obtaining any further written consent of Franchisee. All financial information transmitted by Franchisee to APF pursuant to this Agreement shall be owned by APF as part of the Business Records as defined in **Section 15.9** above, with no duty on the part of APF to account to Franchisee with respect to the use and exploitation of the same.

e. All reports and financial information to be furnished to APF must be signed and verified by Franchisee, unless such requirement is waived in writing by APF, in its sole discretion.

16.2. Books and Records.

In all instances, the accounting and reporting system, and all statements and reports to be submitted by Franchisee, shall conform to U.S. Generally Accepted Accounting Principles, or other applicable Generally Accepted Accounting Principles if Franchisee is located outside of the U.S., applied consistently on a year-to-year basis. Franchisee shall retain all invoices, order forms, payroll records, checks records, bank deposit receipts, sales tax records and returns, cash disbursements journals and general ledgers as specified in the Operations Manual. Franchisee shall advise APF of the location of all original documents and shall not destroy any records without the written consent of APF. Franchisee shall prepare on a current basis, complete and accurate records concerning all financial, marketing and

other operating aspects of its Ace Hardware Painting Services Business conducted under this Agreement. Franchisee's records shall include tax returns, daily reports, statements of Gross Revenue profit and loss statements, ledgers and balance sheets.

16.3. Audit of Books and Records.

From the date Franchisee and APF sign this Agreement until three years after the expiration or termination of this Agreement, including any successor franchises, APF or APF's authorized agent shall have the right to request, receive, inspect and audit any of the records referred to above and any related records wherever they may be located. Franchisee agrees to keep all records and reports for six years from the date such records are created. APF may also request, receive, inspect and audit the records of any party affiliated with Franchisee, including but not limited to Franchisee's Principal Representative, Franchise Manager, owners, guarantors, officers, directors, or other Authorized Representatives, any immediate family members of Franchisee or of such affiliated parties, or any companies or entities associated with Franchisee or such affiliated parties, that APF in its sole discretion determines may be relevant in determining the business results of Franchisee's Ace Hardware Painting Services Business; such as verifying that Franchisee has paid all fees owed to APF based on the Gross Revenues of Franchisee. Inspections and audits conducted at the Business Location may take place without prior notice, during normal business hours. APF may also require at any time the records from Franchisee or its affiliated parties be sent to APF's offices or another location to permit the inspection or audit of such records to be conducted at APF's place of business or the other location. If APF notifies Franchisee that documents are to be sent to a location other than the Business Location for the purpose of conducting an inspection or audit at that location, Franchisee shall provide the requested documents to APF within the time period set forth in APF's notice. Franchisee will be responsible for any expenses associated with collecting and delivering any documents requested by APF for its inspection or audit. Franchisee agrees that APF will have the right to inspect and audit any records of Franchisee or any affiliated party that APF determines to be relevant in its sole discretion, which records may include, in addition to those referred to above, (i) tax returns; (ii) quarterly and/or annual financial statements, including profit and loss statements and balance sheets; (iii) copies of checks, check ledgers and bank statements for checking and savings accounts; (iv) all contracts or agreements entered into by Franchisee and any third parties related to its Ace Hardware Painting Services Business, including but not limited to contracts with customers; and (v) any other documents requested by APF. APF may inspect and audit documents covering a period beginning with the date on which Franchisee first acquired its Ace Hardware Painting Services Business and ending on the date such audit is concluded. All documents provided for APF's inspection or audit must be certified by Franchisee and the appropriate affiliated party, if applicable, as true, complete and correct. Should any inspection or audit disclose a deficiency in the payment of any Royalty Fee, Minimum Individual Marketing Expenditure, National Brand Fee, Software and Internet Fee, or other amounts required to be paid or spent under this Agreement, Franchisee shall pay to APF the deficiency with the late payment charge and interest as set forth in **Section 12.7** within 10 business days of notice thereof, without prejudice to any other remedy of APF under this Agreement. In addition, if the deficiency for any audit period equals or exceeds 2 percent of the correct amount of any Royalty Fee, Minimum Individual Marketing Expenditure, National Brand Fee, Software and Internet Fee, or other amounts due or required to be spent, Franchisee will also pay to APF the entire cost of the inspection or audit including travel, lodging, meals, salaries and other expenses of the inspecting or auditing personnel within 10 business days of notice thereof. Should the audit disclose an overpayment of any Royalty Fees, National Brand Fees, Software and Internet Fees, or other amounts due APF, APF shall pay Franchisee or credit to Franchisee's account, in APF's sole discretion, the amount of the overpayment within 30 days of APF's verification of such overpayment by Franchisee. For purposes of this Section, each calendar quarter of each calendar year being audited shall constitute its separate audit period.

16.4. Failure to Comply with Reporting Requirements.

If Franchisee's records and procedures are insufficient to permit a proper determination of Gross Revenues, APF shall have the right to deliver to Franchisee an estimate, made by APF, of Gross Revenues for the period under consideration, and Franchisee shall pay to APF any amount shown thereby to be owing within five business days of the date of the notice. Any such estimate shall be deemed the minimum amount of fees due for the required reports, and Franchisee shall remain liable for all fees in excess of such amounts once the actual Gross Revenues related to such reports are determined. Additionally, Franchisee shall be liable for all late fees and interest set forth in **Section 12.7** of this Agreement for any reports not filed when due.

16.5. Financial Information from Third Parties.

Franchisee authorizes APF to make inquiries of Franchisee's bank, suppliers and trade creditors concerning Franchisee's Ace Hardware Painting Services Business, and agrees to direct such persons and companies to provide to APF such information and copies of documents pertaining to its Ace Hardware Painting Services Business as APF may request.

17. TRANSFER

17.1. Transfer by APF.

Franchisee acknowledges that APF's obligations under this Agreement are not personal, and APF can unconditionally transfer, assign or convey, on its own discretion, this Agreement to another corporation or any other party, including the operator of a competing franchise system. Franchisee further acknowledges and agrees that APF may sell its assets, the Marks or the System to any third party of APF's choice; or may terminate or cease to exist or dissolve, in any such case without Franchisee's consent, and provided the transferee expressly assumes and undertakes to perform APF's obligations in all material respects, free of any responsibility or liability whatsoever to Franchisee after the transaction occurs. With regard to any such sale, assignment or disposition, Franchisee expressly and specifically waives any claims, demands, or damages against APF arising from or related to the transfer of the Marks or the System from APF to any other party.

17.2. Transfer by Franchisee.

Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Franchisee. Accordingly, APF will not allow or permit any transfer, assignment, subfranchise or conveyance of this Agreement or any interest in this Agreement or all or any part of the business entity that owns it, or all or a substantial portion of the assets of the Ace Hardware Painting Services Business (in each case, a "**Transfer**"), except in compliance with **Section 17.3**. The term "**Transfer**," as used in this Agreement, means and includes the voluntary, involuntary, direct or indirect assignment, sale, gift or other similar disposition. Any unauthorized sale, assignment, transfer or other conveyance, by operation of law or otherwise, or any attempt to do so, shall be deemed void and, at the option of APF, grounds for termination of this Agreement by APF.

17.3. Pre-Conditions to Franchisee's Transfer.

No Transfer will be approved by APF or be effective unless and until Franchisee and the transferee obtain APF's written consent and all the following conditions are satisfied:

a. Franchisee is in full compliance herewith and pays to APF all outstanding debts or amounts owing to APF.

b. At APF's sole discretion, the transferee executes APF's then current Franchise Agreement (which shall have a term, including extensions, equal to the remainder of Franchisee's term, but which may contain provisions substantially different from those contained herein), and such other documents then customarily used by APF to grant franchises, and all other documents as may be requested by APF.

c. The Franchisee or the transferee pays to APF a transfer fee in the amount of \$10,000 (the "**Transfer Fee**"), unless the transferee is (i) a business entity owned in full and actively managed by Franchisee, in which case no Transfer Fee shall be due, or (ii) a child, parent, sibling, or spouse of Franchisee, in which case the Transfer Fee shall be \$3,500.00. If a Transfer is made prior to the second anniversary of the effective date of this Agreement, Franchisee may be charged an additional \$10,000. The Transfer Fee is nonrefundable in all circumstances once paid.

d. Except where prohibited by law, Franchisee executes of a general release of APF, including its shareholders, officers, directors, agents and employees, from all claims and potential claims of Franchisee.

e. Unless waived by APF, Franchisee submits to APF an amount of 1 percent of the greater of Franchisee's Gross Revenues during Franchisee's final 12 months of business or the applicable Minimum Annual Gross Revenues for the last available Operating Year prior to the transfer, which amount shall be held in escrow and used to cover any claims against or expenses to APF relating to resolving any customer disputes arising from Franchisee's Ace Hardware Painting Services Business. This amount shall remain in escrow for the later of 12 months or until all known customer disputes are resolved. Any remaining amount left in escrow after the expiration of such period will be returned to Franchisee.

f. The transferee purchases all of Franchisee's assets used in its Ace Hardware Painting Services Business in accordance with all applicable bulk sales rules and regulations and assumes all of the liabilities of the Ace Hardware Painting Services Business, unless such liabilities have been paid prior to the closing of the transaction or unless the sale is a sale of shares in the capital stock of Franchisee.

g. The transferee completes, to APF's sole satisfaction, APF's then current training program established by APF for franchisees; unless the training is waived by APF in its sole discretion.

h. The parties to the proposed transaction have entered into a bona fide binding agreement (a "**Purchase Offer**"), subject only to the rights of APF. APF shall be furnished a copy of this Purchase Offer, and such Purchase Offer shall be subject to APF's written approval, and the Right of First Refusal reserved to APF as specified in **Section 17.5** below. Franchisee must advise each prospective transferee of this provision and the other terms of this Agreement.

i. If the transferee is a corporation, partnership, limited liability company or other legal entity, the transferee and its stockholders, partners, members or owners of a beneficial interest in the transferee have complied with **Section 11.2** above.

j. The proposed transferee has demonstrated to APF's satisfaction that it, he or she will meet in all respects APF's standards applicable to new franchisees regarding experience, personal and financial reputation and stability, willingness and ability to devote its, his or her full time and best efforts to the operation of the Ace Hardware Painting Services Business being transferred, and any other

conditions as APF may apply in evaluating new franchisees. All required conditions will be provided by APF to the proposed transferee at time of notification of desire to transfer. APF must be provided all information about the proposed transferee as APF may require. No Transfer to a competitor of APF will be permitted.

k. Franchisee agrees that APF has the right to confer with prospective transferees and furnish them with information regarding Franchisee's Ace Hardware Painting Services Business, this Agreement, and the proposed transfer without being held liable to Franchisee, except for intentional misstatements made to a prospective transferee.

17.4. Franchisee's Death or Disability.

If Franchisee is an individual, upon the death or permanent disability of Franchisee, or if Franchisee is an entity, upon the death or permanent disability of the Franchise Manager, the rights granted by this Agreement may pass to the next of kin or legatees, provided that Franchisee's or Franchise Manager's legal representatives shall within 120 days from the date of death or permanent disability of Franchisee or the Franchise Manager apply in writing to APF for the right to transfer to the next of kin or legatee the rights under this Agreement or the ownership interest of the entity. The proposed transferees must meet each of the requirements set forth in this **Article 17** within 30 days of the receipt of a conditional approval for the transfer. For purposes hereof, the term "permanent disability" will mean a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent Franchisee or the Franchise Manager from supervising the management and operation of the Ace Hardware Painting Services Business for a period of 120 days from the onset of such disability, impairment or condition.

17.5. APF's Right of First Refusal.

If Franchisee desires to Transfer, in whole or in part, the Ace Hardware Painting Services Business, Franchisee shall obtain a bona fide, executed, written Purchase Offer from a responsible, arms-length, and fully disclosed purchaser for the Ace Hardware Painting Services Business and other assets used by Franchisee in its Ace Hardware Painting Services Business. Franchisee shall submit an exact copy of the Purchase Offer to APF, which shall, for a period of 30 days from the date of delivery of such offer to APF, have the right, but not the obligation, exercisable by written notice to Franchisee, to purchase all of the Ace Hardware Painting Services Business and the assets of Franchisee (the "**Right of First Refusal**"), for the price and on the terms set forth in the Purchase Offer, subject to the provisions of this **Article 17** and provided that:

a. there shall be deducted from the purchase price the amount of any commissions or fees that would otherwise have been payable to any broker, agent or other intermediary in connection with the sale of such property to the offeree; and

b. APF shall have the right to substitute cash for any other form of consideration specified in the Purchase Offer and to pay in full the entire purchase price at the time of closing.

If the sale to such purchaser is not completed within 60 days after delivery of such offer to APF, APF shall again have the Right of First Refusal.

17.6. Post-Transfer Obligations.

With and after each valid Transfer of this Agreement pursuant to this **Article 17**, the transferee or transferees of Franchisee shall be deemed to be the Franchisee under this Agreement and will be bound

by and liable for all of Franchisee's existing and future obligations. No owner in any business entity that becomes Franchisee shall have any rights under this Agreement by reason of his, her or its ownership.

18. DEFAULT AND TERMINATION

18.1. Termination by APF-Effective Upon Notice.

APF shall have the right to terminate this Agreement and all rights granted Franchisee hereunder, subject to the provisions of applicable state or provincial law governing franchise termination and renewal, effective upon receipt of notice by Franchisee, upon the occurrence of any of the following events:

a. Unauthorized Disclosure. Franchisee intentionally or negligently discloses to any unauthorized person the contents of, or any part of, APF's Operations Manual or any other trade secrets or confidential information of APF, or fails to take appropriate measures to assure no Authorized Representative discloses such information of APF.

b. Abandonment. Franchisee voluntarily abandons the Ace Hardware Painting Services Business for a period of 15 consecutive days, or any shorter period that indicates an intent by Franchisee to discontinue operation of its Ace Hardware Painting Services Business; unless such abandonment is due to fire, flood, earthquake or other similar causes beyond Franchisee's control and not related to the availability of funds to Franchisee.

c. Insolvency; Assignments. Franchisee or any guarantor becomes insolvent or is adjudicated a bankrupt; or any action is taken by Franchisee or any guarantor, or by others against Franchisee or any guarantor under any insolvency, bankruptcy or reorganization act; or Franchisee or any guarantor makes an assignment for the benefit of creditors, or a receiver is appointed for Franchisee or any guarantor.

d. Unsatisfied Judgments; Levy; Foreclosure. Any material judgment (or several judgments which in the aggregate are material) is obtained against Franchisee and remains unsatisfied or of record for 30 days or longer (unless a supersedeas or other appeal bond has been filed); or execution is levied against the Ace Hardware Painting Services Business or any of the property used in the operation of the Ace Hardware Painting Services Business and is not discharged within five days; or the real or personal property of the Ace Hardware Painting Services Business is sold after levy thereupon by any sheriff, marshal or constable.

e. Criminal Conviction. Franchisee or any owner of Franchisee's entity is convicted of a felony, a crime involving moral turpitude, a crime related to its Ace Hardware Painting Services Business, or any crime or offense that is likely, in the sole opinion of APF, to materially and unfavorably affect the System, Marks, goodwill or reputation thereof.

f. Repeated Noncompliance. Franchisee receives three notices of default with respect to Franchisee's obligations hereunder from APF during the term of this Agreement, regardless of whether the defaults were cured by Franchisee.

g. Unauthorized Transfer. Franchisee sells, transfers or otherwise assigns the Ace Hardware Painting Services Business, an interest in its franchise or the Franchisee entity, this Agreement, the Ace Hardware Painting Services Business or a substantial portion of the assets of the Ace Hardware Painting Services Business owned by Franchisee without complying with the provisions of this Agreement.

h. Under-Reporting of Gross Revenues. Franchisee submits on three or more occasions during the term of this Agreement, or any successor franchise term, a report, financial statement, tax return, schedule or other information or supporting record which understates its Gross Revenues by more than 2 percent, or has a variance of more than 10 percent between reports generated through the business operations software and Franchisee's regular accounting reports, unless Franchisee demonstrates to APF's satisfaction that such understatement or variance resulted from inadvertent error.

i. Failure to Deliver Reports. Franchisee submits reports more than five days late on three or more occasions during the term of this Agreement, or during the term of any successor franchise, unless due to circumstances beyond the control of Franchisee.

j. Condemnation or Loss of Business Location. Franchisee loses possession or the right of possession of all or a significant part of the Business Location through condemnation, casualty, lease termination or mortgage foreclosure and the Ace Hardware Painting Services Business is not relocated or reopened within 60 days of such loss of possession or condemnation or casualty.

k. Contesting Ownership of Marks. Franchisee contests in any court or proceeding the validity of, or APF's ownership of, the Marks.

l. Unauthorized Entity Action. Franchisee is a corporation or other business entity and any action is taken which purports to merge, consolidate, dissolve or liquidate such entity without APF's prior written consent.

m. Failure to Complete Training. Any of Franchisee, Franchisee's Principal Representative, or the Franchise Manager, as applicable, fail to successfully complete APF's Initial Training Program.

n. Improper Business Practices. APF determines that Franchisee: engaged in an act of fraud with respect to its rights or obligations under this Agreement; engaged in false advertising; failed to, or intentionally underreported, sales or other financial information to APF; made a misrepresentation or gave any false information in any reports or other information provided to APF; or failed to comply with applicable laws, regulations and ordinances.

o. Sexual Harassment or Discrimination. APF receives credible evidence, which it verifies to its satisfaction, that Franchisee, its Principal Representative, its Franchise Manager, or any other management level employee of Franchisee, has sexually harassed or intimidated any individual or intentionally engaged in any racial, ethnic, religious, sexual, or other offensive discrimination against any individual or group.

p. Sales Activity in the Territory of Another Ace Hardware Painting Services Business. Franchisee provides, markets, or sells any of the Services or products to, or otherwise services any customer within the territory of any Ace Hardware Painting Services Business owned by APF, any affiliate of APF or any other franchisee of APF, without the express written consent of APF.

q. Violation of Covenant Not to Compete or Other Restrictive Covenant. Franchisee or any of the Franchisee Affiliates (as defined in **Section 20.1**) violates the covenant not to compete or any other restrictive covenant contained in **Article 20** below.

r. Executive Order 13224; Patriot Act. Franchisee, or any officer, director, member, manager, or partner of Franchisee (as applicable), or the Franchise Manager, violates or becomes subject

to United States Executive Order 13224 or The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “**Patriot Act**”).

s. Breach of Other Agreement. Franchisee breaches the terms of any other agreement between APF and Franchisee and fails to cure said breach during any applicable cure period provided in the other agreement.

t. Inadequate Guaranties. Any guaranty of this Agreement fails to be a continuing obligation fully enforceable against the guarantor signing the guaranty, or there is any inadequacy of the guaranty or guarantor and the guarantor is unable to provide adequate assurances as required by APF.

18.2. Termination by APF with Prior Notice.

APF shall have the right to terminate this Agreement and all rights granted Franchisee hereunder, subject to the provisions of applicable state or provincial law governing franchise termination and renewal, effective after the specified number of days after delivery of written notice by APF to Franchisee:

a. Unauthorized Sales. Franchisee sells or offers for sale any unauthorized merchandise, product or service after 30 days after notification from APF.

b. Failure to Make Payments. Franchisee fails to pay any amounts due APF or affiliates, including the Initial Franchise Fee, the Royalty Fee, the National Brand Fee, the Software and Internet Fee, and all other fees or sums owed to APF, its affiliates or its call center service provider, or any amounts payable to APF, within 10 days after receiving notice that such fees or amounts are overdue.

c. Misuse of Marks. Franchisee misuses or fails to follow APF’s directions and guidelines concerning use of the Marks and fails to correct the misuse or failure within 10 days after notification from APF.

d. Failure to Submit Requested Information. Franchisee fails, or refuses, to submit any report, financial statement, tax return, schedule or other information or supporting records required herein within 10 days after notification from APF.

e. Failure to Employ a Call Center Service. Franchisee fails to employ a third party call center service to answer its published business telephone number between the hours of 8:00 a.m. and 5:00 p.m., Monday through Friday, holidays excepted, within 10 days after notification from APF.

f. Failure to Meet Minimum Annual Gross Revenues. Franchisee fails to generate Gross Revenues for any 12-month period which equals or exceeds the Minimum Annual Gross Revenues for the same period after 10 days notification from APF.

g. Filing Non-Compliant Legal Action. Franchisee or any of the Franchisee Affiliates files or otherwise commences litigation, arbitration, or any other legal action against APF or any of the APF Affiliates, as defined in **Section 22.1**, that is not in compliance with the dispute resolution terms agreed upon in **Article 22** as may be modified by any applicable rider in Exhibit VI, and fails to dismiss such action within seven days after notification from APF.

h. All Other Defaults Under Agreement. In addition to the foregoing termination rights, APF shall have the right to terminate this Agreement (subject to any state or provincial laws to the contrary, where state or provincial law shall prevail), effective upon 30 days written notice to Franchisee,

if Franchisee breaches any other provision of this Agreement and fails to cure the default during such thirty 30-day period. In that event, at APF's sole discretion this Agreement will terminate without further notice to Franchisee, effective upon expiration of the 30-day period. Notwithstanding the foregoing, if the breach is curable, but is of a nature which cannot be reasonably cured within such 30-day period and Franchisee has commenced and is continuing to make good faith efforts to cure the breach during such 30-day period, Franchisee shall be given an additional reasonable period of time to cure the breach.

18.3. Termination by APF for Continuing Force Majeure Events.

APF shall have the right to terminate this Agreement and all rights granted Franchisee hereunder, subject to the provisions of applicable state or provincial law governing franchise termination and renewal, effective upon receipt of notice by Franchisee, in the event of a force majeure event as described in **Section 23.15** below that continues for a period of six consecutive months or longer and which prevents APF from performing its obligations hereunder.

18.4. APF's Right to Suspend Services on Franchisee's Default.

If APF has provided Franchisee with a notice of any default pursuant to this **Article 18**, in addition to APF's other remedies, APF reserves the right, on behalf of itself and the APF Affiliates, to suspend any services to be provided by APF or any APF Affiliate or the sales of any products to Franchisee by APF or any APF Affiliate until such time as Franchisee cures the default. The services that may be suspended include but are not limited to any services related to advertising or promotion of Franchisee's Ace Hardware Painting Services Business such as the listing of Franchisee's Ace Hardware Painting Services Business on any website and any scheduling services. The suspension may continue until Franchisee has cured each default identified in the default notice from APF and Franchisee is deemed to be in good standing. Franchisee is not relieved of any obligation to pay any fees during the term of any suspension. The rights afforded to APF in this **Section 18.4** are in addition to any other rights of APF upon a default by Franchisee.

18.5. Termination by Franchisee.

Franchisee shall have the right to terminate this Agreement as the result of a material breach of this Agreement by APF, provided Franchisee provides APF with written notice of the breach within 30 days of the breach and a reasonable opportunity to cure such breach, which shall in no event be less than 90 days. Notwithstanding the foregoing, if the breach is curable, but is of a nature which cannot be reasonably cured within a 90-day or other given period and APF has commenced and is continuing to make good faith efforts to cure the breach during the given period, APF will be given an additional reasonable period of time to cure the breach. If Franchisee terminates this Agreement pursuant to this **Section 18.5**, Franchisee shall remain responsible for complying with the post termination obligations set forth in this Agreement, including in **Section 18.6** below.

18.6. Obligations of Franchisee Upon Termination or Expiration.

Franchisee agrees that upon termination or expiration of this Agreement Franchisee shall do all of the following:

a. Pay within five days of the effective date of termination or expiration of this Agreement all amounts owed to APF, the landlord of the Business Location (if applicable) and Franchisee's trade and other creditors that are then unpaid. In the event of a termination due to a default by Franchisee, the amounts owed to APF shall include an amount equal to the Royalty Fees that would have been payable based on the Minimum Annual Gross Revenues for each year from the date of termination until the

expiration date that would apply to this Agreement had it not been terminated. All periodic payments to APF shall be deemed to accrue daily, shall be adjusted accordingly, and shall include interest at the rate of 18 percent per annum or the highest rate permitted by law, whichever is lower. This same interest rate shall apply as the post-judgment interest rate, regardless of the applicable statutory rate, in the event of any legal actions related to this Agreement.

b. Submit to APF an amount of 1 percent of the greater of Franchisee's Gross Revenues during Franchisee's final 12 months of business or the applicable Minimum Annual Gross Revenues for the last available Operating Year, which amount shall be held in escrow and used to cover any claims against or expenses to APF relating to resolving any customer disputes arising from Franchisee's Ace Hardware Painting Services Business. This amount shall remain in escrow for the later of 12 months or until all known customer disputes are resolved. Any remaining amount left in escrow after the expiration of such period will be returned to Franchisee.

c. Immediately discontinue the use of all Marks, signs, structures, forms of advertising, telephone listings and service, the Operations Manual, and all materials and Services of any kind which are identified or associated with the System, and return all these materials to APF, at Franchisee's sole cost and expense.

d. Immediately notify the telephone company, all listing agencies, Internet service providers, and social media website operators of the termination or expiration of Franchisee's right to use any telephone number, classified or other telephone directory listing, domain name, or social media website or account associated with the Marks, and authorize the transfer of them to APF or any new franchisee as directed by APF. Franchisee acknowledges as between APF and Franchisee, APF has the sole rights to, and interest in, all telephone numbers, directory listings, web addresses, domain names, and social media websites and accounts used by Franchisee to promote its Ace Hardware Painting Services Business and/or associated with the Marks. Franchisee irrevocably appoints APF, with full power of substitution, as its true and lawful attorney-in-fact, which appointment is coupled with an interest, to execute such directions and authorizations as may be necessary or prudent to accomplish the foregoing. Such appointment is evidenced by Exhibit V to this Agreement.

e. Make no representation nor state that Franchisee is in any way approved, endorsed or licensed by APF or associated or identified with APF or the System in any manner.

f. Immediately take all steps necessary to amend or terminate any registration or filing of any d/b/a or business name or fictitious name or any other registration or filing containing the Marks, so as to delete the Marks and all references to anything associated with the System.

g. Immediately shut down any Internet site operated by Franchisee to promote the Ace Hardware Painting Services Business and assign and transfer all web addresses used by Franchisee for the same purpose.

h. Comply with the provisions of this Agreement that survive termination, or expiration including in particular, the restrictive covenants in **Article 20**.

18.7. Franchisee's Failure to Comply With Post-Termination Obligations.

If, within 30 days after termination or expiration of this Agreement, Franchisee fails to:

a. Remove all displays of the Marks from Franchisee's Ace Hardware Painting Services Business that are identified or associated with the System, APF may enter the Franchisee's Business

Location to effect removal, except if prohibited by law. In this event, APF will not be charged with trespass nor be accountable or required to pay for any displays or materials.

b. Take all steps necessary to amend or terminate any registration or filing of any business name or d/b/a or any other registration or filing containing the Marks, then Franchisee irrevocably appoints APF, with full power of substitution, as Franchisee's true and lawful attorney-in-fact, which appointment is coupled with an interest, and in Franchisee's name, place and stead and on Franchisee's behalf, to take action as may be necessary to amend or terminate all registrations and filings if Franchisee fails to timely take such action.

18.8. Effects of Termination or Expiration.

Termination or expiration of this Agreement shall not affect, modify or discharge any claims, rights, causes of action or remedies which APF may have against Franchisee, whether such claims or rights arise before or after such termination or expiration. All obligations of the parties hereto which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect notwithstanding such expiration or termination. In particular, but without limiting the generality of the foregoing, the provisions of **Sections 11.1.s** and **19.3** and **Articles 20** and **22** of this Agreement shall survive termination or expiration hereof.

18.9. Outstanding Loan Obligations.

In the event that this Agreement expires or is terminated for any reason whatsoever and APF is the lender under any loan agreement ("**Loan**") or the holder of any promissory note ("**Note**") or the holder of any personal property, security interest, chattel mortgage, debenture or mortgage of any nature whatsoever (the "**Security Interest**") from Franchisee concerning assets used at any time by Franchisee in its Ace Hardware Painting Services Business or which are situated on the Business Location, such Loan, Note or Security Interest shall, upon the effective date of termination or expiration, immediately become fully due and payable as to all principal and interest so loaned and secured.

18.10 Conflicting Laws.

THE PARTIES ACKNOWLEDGE THAT IN THE EVENT THAT THE TERMS OF THIS AGREEMENT REGARDING TERMINATION OR EXPIRATION ARE INCONSISTENT WITH APPLICABLE STATE, PROVINCIAL, OR FEDERAL LAW, SUCH LAW SHALL GOVERN FRANCHISEE'S RIGHTS REGARDING TERMINATION OR EXPIRATION OF THIS AGREEMENT.

18.11 Remedies Cumulative.

All rights and remedies conferred upon APF by this Agreement and by law shall be cumulative of each other, and neither the exercise nor the failure to exercise any right or remedy shall preclude the exercise of any other right or remedy.

19. BUSINESS RELATIONSHIP

19.1. Business Relationship.

Franchisee acknowledges that it is an independent contractor and is not an agent, partner, joint venturer or employee of APF, and Franchisee agrees not to hold itself out as such. This Agreement does not create a fiduciary or other special relationship between the parties. Neither party is liable or

responsible for the other's debts or obligations, nor shall either party be obligated for any damages to any person or property directly or indirectly arising out of the operation of the other party's business authorized by or conducted pursuant to this Agreement. It is further agreed that Franchisee has no authority to create or assume in APF's name or on behalf of APF, any obligation, express or implied, or to act or purport to act as agent or representative on behalf of APF for any purpose whatsoever. All employees, contractors and subcontractors hired by or working for Franchisee shall be the employees, contractors or subcontractors of Franchisee and shall not, for any purpose, be deemed employees, contractors or subcontractors of APF or subject to APF's control. Neither this Agreement nor the course of conduct between APF and Franchisee is intended, nor may anything in this Agreement (or the course of conduct) be construed, to state or imply that APF is the employer or joint employer of Franchisee's Authorized Representatives, or vice versa. Each of the parties agrees to file its own tax, regulatory, payroll and other reports with respect to its respective employees, contractors or subcontractors and operations. Notwithstanding any other provisions in this Agreement, APF shall not be responsible for supervising the activities of Franchisee's Ace Hardware Painting Services Business or ensuring that the Ace Hardware Painting Services Business is operated in compliance with applicable laws.

19.2. Third Party Obligations.

APF will have no liability for Franchisee's obligations, or to pay or otherwise fulfill any of Franchisee's obligations to any third parties.

19.3. Indemnification.

Franchisee agrees to indemnify, defend, release and hold APF, its subsidiaries and affiliates (if any), and their respective shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees, as applicable, (the "**Indemnified Parties**") harmless against, and to reimburse them for all Claims, (as defined below), any and all third party obligations described above, and any and all claims, obligations and liabilities directly or indirectly arising out of the operation of the Ace Hardware Painting Services Business, out of the use of the Marks and Licensed Methods in any manner not in accordance with this Agreement, or out of the violation of any laws including labor and employment laws. This indemnity includes any Claims arising from the acts or omissions of Franchisee's Authorized Representatives and independent contractors. For purposes of this Agreement, "**Claims**" include all obligations, actual and consequential damages and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. APF will have the right to defend any such Claim against it. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

20. RESTRICTIVE COVENANTS

20.1. Non-Competition During Term.

Franchisee acknowledges that, in addition to the license of the Marks hereunder, APF has also licensed commercially valuable information which comprises and is a part of the Licensed Methods, including without limitation, operations, marketing, advertising and related information and materials, and that the value of this information derives not only from the time, effort and money which went into its compilation, but from the usage of the information and materials by all franchisees of APF using the Marks and Licensed Methods. Franchisee therefore agrees that other than the Ace Hardware Painting Services Business licensed herein, neither Franchisee, the Franchise Manager, nor any of Franchisee's shareholders, directors, officers, members, managers, partners, guarantors, employees, agents, successors

and assignees, as applicable (collectively, the “**Franchisee Affiliates**”), nor any member of his or their immediate families, or any Authorized Representative, will during the term of this Agreement:

a. have any direct or indirect controlling interest as a disclosed or beneficial owner in a “Competitive Business,” as defined below; or

b. perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business.

The term “**Competitive Business**” as used in this Agreement means any business operating, or granting franchises or licenses to others to operate, a business that is similar to an Ace Hardware Painting Services Business, including a business that provides residential and commercial painting, staining and related services. However, Franchisee will not be prohibited by this Agreement from owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent 2 percent or less of that class of securities issued and outstanding.

20.2. Post-Termination Covenant Not to Compete.

Upon termination or expiration of this Agreement for any reason, or the Transfer of the rights under this Agreement, Franchisee and the Franchisee Affiliates agree that, for a period of 24 months commencing on the effective date of termination, expiration, or Transfer, or the date on which Franchisee ceases to conduct business, whichever is later, neither Franchisee and the Franchisee Affiliates nor any Authorized Representative will have any direct or indirect interest (through a member of any immediate family or otherwise) as a disclosed or beneficial owner, investor, partner, director, officer, employee, consultant, representative or agent or in any other capacity in any Competitive Business within 25 miles of the closest point of Franchisee’s Territory or any territory of any Ace Hardware Painting Services Business owned by APF, any affiliate of APF or any other franchisee of APF. Franchisee and the Franchisee Affiliates expressly acknowledge that they possess business and career skills and abilities of a general nature and have other opportunities for exploiting such skills. Consequently, enforcement of the covenants made in this Section will not deprive them of their personal goodwill or ability to earn a living. If a former Franchisee, former Franchisee Affiliate, or any former Authorized Representative, breaches this Section, the 24-month period shall start on the date that such person is enjoined from competing or stops competing, whichever is later.

20.3. No Diversion of Business.

During the term of this Agreement, and for a period of 24 months after the termination or expiration of this Agreement, Franchisee and the Franchisee Affiliates agree not to divert or attempt to divert any business related to APF’s business or any other business of a franchisee of APF to any Competitive Business, by direct inducement or otherwise.

20.4. Non-Disparagement.

Franchisee agrees that neither it nor any of the Franchisee Affiliates shall, at any time during the term of this Agreement or afterwards, make any oral or written statements that directly or indirectly criticize, disparage, denigrate, or defame APF or any of its affiliates or franchisees, or any of its or their officers, directors, employees, agent, representatives, partners, affiliates, successors, or assigns or the business, or any of the Licensed Methods, products, or services, of APF, or that would otherwise tend to be injurious to the reputation or goodwill of APF or its Marks.

20.5. Confidentiality of Proprietary Information.

Franchisee will treat, and shall cause all Franchisee Affiliates to treat, all information it receives that comprises or is a part of the Licensed Methods as proprietary and confidential, and will not use or duplicate such information in an unauthorized manner or disclose the information to any unauthorized person, including in any business that may be competitive with APF, without first obtaining APF's written consent. Franchisee acknowledges, and will cause each of the Franchisee Affiliates to acknowledge, that the Marks and the Licensed Methods have valuable goodwill attached to them, that the protection and maintenance thereof is essential to APF and that any unauthorized use or disclosure of the Marks and Licensed Methods will result in irreparable harm to APF.

20.6. Confidentiality Agreements and Acknowledgements.

APF reserves the right to require that Franchisee cause each of its owners, and any members their immediate families, to execute a Nondisclosure and Noncompetition Agreement in a form approved by APF containing the restrictive covenants of this Agreement. If APF requires any immediate family member to execute a Nondisclosure and Noncompetition Agreement subsequent to the execution of this Agreement by Franchisee, Franchisee must use its best efforts to cause that immediate family member to execute the Nondisclosure and Noncompetition Agreement. Franchisee will provide to APF a copy of each Nondisclosure and Noncompetition Agreement signed by any Franchisee owner, or any member of their immediate families, immediately following its execution and thereafter upon APF's request.

20.7. Claims Are Not Defenses to Covenants.

Franchisee expressly agrees that the existence of any claim it may have against APF, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by APF of the covenants of this **Article 20**. Franchisee further agrees that APF shall be entitled to set off from any amount owed by APF to Franchisee any loss or damage to APF resulting from Franchisee's breach of this **Article 20**.

21. INSURANCE

21.1. Insurance Coverage.

Franchisee shall, upon commencement of the term of this Agreement, purchase and at all times maintain in full force and effect all of the following coverages:

a. If Franchisee employs one or more employees, workers' compensation insurance with employers liability coverage, with a broad form all-states endorsement coverage sufficient to meet the requirements of law;

b. Comprehensive general liability insurance including product liability, property damage, personal injury liability, bodily injury coverage, and premises/operation liability for the Business Location and its operations, with a limit of not less than \$1 million per occurrence and \$2 million in the aggregate, or such greater limit as may be required as part of any lease agreement for the Business Location; with a crime policy endorsement with a limit of not less than \$25,000;

c. If Franchisee owns or leases one or more vehicles used in connection with the operation of its Ace Hardware Painting Business, comprehensive automobile liability insurance including hired and non-owned coverage with a limit of not less than \$1 million per occurrence and \$2 million in the aggregate;

d. Umbrella commercial excess coverage with a limit of not less than \$1 million;

e. All-risk property insurance covering the personal property owned or leased by Franchisee in an amount equal to at least 100 percent of the replacement costs, less a reasonable deductible which cannot exceed \$5,000; and

f. Such additional insurance as may be required by the terms of any lease or mortgage for Franchisee's Ace Hardware Painting Services Business Location.

Cyber liability insurance in an amount of not less than \$250,000 is optional but highly recommended.

The liability insurance afforded by the policy or policies shall not be limited in any way by reason of any insurance that may be maintained by APF. APF reserves the right to increase or decrease the amounts of insurance Franchisee must purchase by providing Franchisee with 10 days advance written notice of any changes in coverage amounts. All policies of insurance required under this Section will be with responsible companies qualified to do business and in good standing in the state or province where the Franchisee's Ace Hardware Painting Services Business is located, and shall be in a form satisfactory to APF. All liability insurance policies shall name APF as an additional insured to the extent of claims arising out of the operations of Franchisee's Ace Hardware Painting Services Business. To the extent APF's preferred insurance provider is licensed and qualified to do business in the state or province where Franchisee's Ace Hardware Painting Services Business is located, Franchisee shall obtain the above-required insurance coverage from Franchisee's preferred insurance provider, unless APF approves an alternate insurance provider for Franchisee.

21.2. Proof of Insurance.

Prior to opening for business, Franchisee shall furnish to APF certificates issued by each of Franchisee's insurers indicating that all premiums due have been paid, that all required insurance is in full force and effect, and that the insurance will not be terminated or changed without at least 30 days prior written notice from the insurer to APF. New certificates evidencing renewal of insurance shall be furnished at least 30 days prior to the date of expiration of each policy. Within five business days of any request by APF, Franchisee shall deliver a copy of all insurance policies to APF for examination.

21.3. Failure to Maintain Insurance.

If Franchisee fails to obtain or maintain adequate insurance, in addition to any other remedies available to APF under this Agreement, APF may obtain insurance for and in Franchisee's name. Within five days of any written request by APF, Franchisee shall pay all costs of obtaining adequate insurance.

21.4 Contractor and Subcontractor Insurance.

Franchisee agrees not to permit any third party contractor or subcontractor to perform any work or offer any services on behalf of Franchisee in respect of the Ace Hardware Painting Services Business unless such contractor or subcontractor maintains insurance coverage in such amounts and types as Franchisee is required to maintain under the provisions of this **Article 21**, with the specific addition that contractors and subcontractors cannot exclude principals from its Workers' Compensation coverage and that liability policies name Franchisee and APF as an additional insured on a primary and non-contributory basis, for ongoing and completed operations. Franchisee agrees to maintain evidence that

such insurance by its contractors and subcontractors is in effect and to provide such proof of insurance as APF may require, in its sole discretion, from time to time.

22. ARBITRATION

22.1. Arbitration.

All controversies, disputes, claims, causes of action and/or alleged breaches or failures to perform between APF, its subsidiaries and affiliated companies or their shareholders, officers, directors, members, managers, partners, agents, employees and attorneys (in their representative capacity) (collectively, the “**APF Affiliates**”) and Franchisee and the Franchisee Affiliates (as defined in **Section 20.1** above) arising out of or related to: (1) this Agreement; (2) the relationship of the parties; (3) the validity of this Agreement; or (4) any Licensed Methods, will be submitted for arbitration on demand of either party to the Denver, Colorado, U.S.A. office of either the Judicial Arbiter Group (“**JAG**”) or the American Arbitration Association (“**AAA**”), as selected by the party submitting the demand; except for actions brought which are related to or based on the Marks or the copyrights of APF or to enforce the provisions of **Article 20** of this Agreement, which actions APF, at its option, may bring either in a court of competent jurisdiction or in arbitration. Notwithstanding the language above, if the action is based on a separate agreement or instrument between Franchisee or the Franchisee Affiliates and APF or the APF Affiliates (such as a promissory note or lease), the dispute resolution procedure in that agreement or instrument will control, rather than this Section; provided, that, at APF’s sole option, any claim of any APF Affiliate against a Franchisee Affiliate based on such other agreement or instrument may be brought in arbitration in conjunction with a dispute between the parties that is subject to arbitration under this Section, regardless of any provisions to the contrary contained in that other agreement or instrument. Arbitration proceedings will be conducted in Denver, Colorado, U.S.A. and will be heard by one arbitrator in accordance with the then current rules of AAA that apply to commercial arbitration. The decision as to whether a claim is subject to mandatory arbitration shall be made by an arbitrator, not a court, except that the decision whether the arbitration may proceed as a class action shall be made by a court. The arbitrator shall be a resident of the State of Colorado, U.S.A. knowledgeable of Colorado law and fluent in English. The arbitration proceeding and all other hearings shall be conducted in English only, although Franchisee shall have the right, at Franchisee’s option and sole expense, to have a translator present at the proceeding or other hearings. The expense of a translator shall not be considered a cost or expense related to an action pursuant to **Section 23.9** of this Agreement. The parties further agree that, in connection with any arbitration proceeding, each will file any compulsory counterclaim (as defined by Rule 13 of the U.S. Federal Rules of Civil Procedure) within 30 days after the date of the filing of the claim to which it relates. Any party to an arbitration proceeding may apply to the arbitrator for reasonable discovery from the other. In this Agreement, “reasonable discovery” means a party may submit no more than ten interrogatories, including subparts, 25 requests for admission, 25 document requests, and three depositions per side of the dispute. The foregoing discovery rights and limitations shall control over any contradictory discovery rules of AAA, unless the parties agree otherwise.

22.2. Arbitration Award.

Subject to **Sections 22.6** and **22.7** below, the arbitrator will have the right to award or include in the award any relief available and appropriate under the applicable law (as set forth in **Section 22.5**) and this Agreement. Any award shall be based on established law and shall not be made on broad principles of justice and equity. The award and decision of the arbitrator will be conclusive and binding upon all parties, and judgment upon the award may be entered in any court of competent jurisdiction. This provision will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

22.3. Limitations on Proceedings.

a. APF and Franchisee agree that arbitration will be conducted on an individual basis only. Neither party shall commence any arbitration with a third party against the other, or join with any third party in any arbitration involving APF and Franchisee. Further, neither APF nor Franchisee shall attempt to consolidate or otherwise combine in any manner an arbitration proceeding involving APF and Franchisee with another arbitration of any kind, nor shall APF or Franchisee attempt to certify a class or participate as a party in a class action against the other.

b. The foregoing notwithstanding, in the event Franchisee controls, is controlled by, or is in active concert with another franchisee of APF, or there is a guarantor of some or all of the Franchisee's obligations to APF, then the joinder of those parties to any arbitration between APF and Franchisee shall be permitted, and in all events, the joinder of an owner, director, officer, manager, partner or other representative or agent of Franchisee shall be permitted.

c. Franchisee agrees that no claims may be brought on its behalf or on behalf of any of the Franchisee Affiliates by any third party, including but not limited to any association representing Franchisee.

22.4. Injunctive Relief.

Notwithstanding anything to the contrary contained in this Agreement, APF and Franchisee will each have the right in a proper case to obtain temporary or preliminary injunctive relief from a court of competent jurisdiction. Each party agrees that the other may have such temporary or preliminary injunctive relief, without bond, but upon due notice, and with the sole remedy in the event of the entry of such injunctive relief being the dissolution of such injunctive relief, if warranted, upon hearing duly held (all claims for damages by reason of the wrongful issuance of such injunction being expressly waived by each party). Any such action will be brought as provided below.

22.5. Governing Law/Consent to Jurisdiction/Waiver of Jury Trial.

The United States Federal Arbitration Act shall govern all questions about the enforceability of the dispute resolution procedures in this Agreement and the confirmation of any arbitration awards pursuant to such procedures, and no arbitration issues are to be resolved pursuant to any state or provincial statutes, regulations or common law. Otherwise, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or applicable international trademark law, this Agreement shall be interpreted under the laws of the State of Colorado, U.S.A. and any dispute between the parties shall be governed by and determined in accordance with the internal substantive laws (and not the laws of conflict) of the State of Colorado, U.S.A., which laws shall prevail in the event of any conflict of law. Notwithstanding the foregoing, the parties agree that the Colorado Consumer Protection Act (COLO. REV. STAT. ANN Section 6-1-101, et seq.) shall not apply to this Agreement or any disputes between the parties. Franchisee and APF have negotiated regarding a forum in which to resolve any disputes that may arise between them and have agreed to select a forum in order to promote stability in their relationship. Therefore, if a claim is asserted in any legal proceeding not subject to mandatory arbitration, as specified in **Section 22.1** above, involving Franchisee and/or the Franchisee Affiliates and APF and/or the APF Affiliates, the parties agree that the exclusive venue for disputes between them shall be in the state and federal courts of Colorado, U.S.A., and each waive any objection either may have to the personal jurisdiction of or venue in the state and federal courts of Colorado, U.S.A. Notwithstanding the foregoing, any legal proceeding by APF or any APF Affiliate not subject to mandatory arbitration may be brought in any court of competent jurisdiction in the country, state, province, or other geographic area in which the Ace Hardware Painting Services Business is located or in which Franchisee or any Franchisee Affiliate resides or owns assets. IF A CLAIM MAY BE

BROUGHT IN COURT, THEN APF, THE APF AFFILIATES, FRANCHISEE, AND THE FRANCHISEE AFFILIATES EACH WAIVE THEIR RIGHTS TO A TRIAL BY JURY.

22.6. No Punitive or Consequential Damages.

Except as specifically permitted elsewhere in this Agreement, neither APF or any of the APF Affiliates, on the one side, nor Franchisee or any of the Franchisee Affiliates, on the other side, shall be liable to the other for punitive or other damages not measured by the other party's actual damages, except as may be required by statute, in any action between the parties, whether of the type subject to mandatory arbitration under **Section 22.1** or otherwise, and whether such action is brought in arbitration, litigation, or any other legal proceeding.

22.7. No Recourse Against Others.

Franchisee agrees that its sole recourse for claims (whether in contract or in tort, in law or in equity, or granted by statute) arising between the parties shall be against APF or its successors and assigns. Franchisee agrees that the shareholders, officers, directors, members, managers, partners, agents, and employees of APF and its affiliates (the "**Nonparty Affiliates**") shall not be personally liable nor named as a party in any action between APF and Franchisee. To the maximum extent permitted by law, Franchisee waives any such claims against such Nonparty Affiliates.

23. MISCELLANEOUS PROVISIONS

23.1. Modification.

a. This Agreement may only be modified upon execution of a written agreement between APF and Franchisee or, at APF's option, upon notice of the approval of a Super-Majority as defined in **Section 23.1.b** below.

b. This Agreement may be modified by APF at its option whenever APF and a Super-Majority, as hereinafter defined, of franchisees of APF agree to any such modification. A "**Super-Majority**" of APF franchisees shall consist of the owners of at least 75 percent of all Ace Hardware Painting Services Businesses, or, if only a portion of Ace Hardware Painting Services Businesses are affected by the modification, at least 75 percent of those Ace Hardware Painting Services Businesses affected by the modification. Whenever a modification is approved by a Super-Majority, APF may elect to treat the modification as effective to all franchisees or the applicable group thereof, including Franchisee, to the same extent and in the same manner as if the modification was unanimously approved by them, and regardless of whether Franchisee may or may not desire to be bound by the modification. APF shall provide Franchisee with notice of any modification to this Agreement based on a Super-Majority approval at least 30 days prior to the date such modification is to be effective. By signing this Agreement, Franchisee appoints the officers of APF as its attorneys in fact with irrevocable power and authority to execute any such modification so approved.

c. Franchisee acknowledges that APF may modify its standards and specifications and operating, marketing, and other policies and procedures set forth in the Operations Manual unilaterally under any conditions and to the extent in which APF, in its sole discretion, deems necessary, and Franchisee shall be bound by such modifications. These modifications may include regional and local variations. Franchisee may be obligated to invest additional capital in Franchisee's Ace Hardware Painting Services Business and incur higher operating costs based on these periodic modifications.

d. APF has the right to vary the franchise agreement and any standards, specifications, policies, and procedures for a particular APF franchisee based on the circumstances related to the franchisee, its territory, or any other condition. Franchisee shall not be entitled to require APF to grant Franchisee a similar variation.

23.2. Entire Agreement.

This Agreement (which includes the Addendum and Exhibits expressly incorporated herein) contains the entire agreement between the parties and supersedes any and all prior agreements concerning the subject matter hereof. APF does not authorize and will not be bound by any representation of any nature other than those expressed in this Agreement. Franchisee acknowledges and agrees that no representations have been made to it by APF or its representatives regarding projected sales volumes, market potential, revenues or profits of Franchisee's Ace Hardware Painting Services Business, or operational assistance other than as stated in this Agreement or in any franchise disclosure document or advertising or promotional materials provided by APF in connection herewith. Additionally, Franchisee hereby acknowledges and agrees that, in entering into this Agreement, it is not relying on the existence or non-existence of any particular fact or matter not set forth in this Agreement or in the franchise disclosure document provided to Franchisee. Franchisee agrees and understands that APF will not be liable or obligated for any oral representations or commitments made prior to the execution hereof, for claims of negligent or fraudulent misrepresentation based on any such oral representations or commitments, or for claims of negligent or fraudulent omissions or nondisclosure of facts or information. Nothing in this Agreement or in any related agreement is intended to disclaim any representations made by APF in the franchise disclosure document provided to Franchisee.

23.3. Delegation by APF.

From time to time, APF will have the right to delegate the performance of any portion or all of its obligations and duties under this Agreement to third parties, whether they are employees of APF or independent contractors that APF has contracted with to provide such services. Franchisee agrees in advance to any such delegation by APF of any portion or all of its obligations and duties hereunder.

23.4. Consent; Business Judgment.

Wherever APF's consent or approval is required in this Agreement, unless the provision specifically indicates otherwise, APF has the right to withhold its approval at its option, in its business judgment, taking into consideration its assessment of the long-term interests of the System overall. APF may withhold any and all consents or approvals required by this Agreement if Franchisee is in default or breach of this Agreement. APF's approvals and consents will not be effective unless given in writing and signed by one of its duly authorized representatives. In no event may Franchisee make any claim for money damages based on any claim that APF has unreasonably withheld or delayed any consent or approval to a proposed act by Franchisee under the terms of this Agreement. Franchisee's sole remedy for the claim will be an action or proceeding to enforce the provisions of this Agreement by specific performance or by declaratory judgment.

23.5. General Economic Conditions.

Neither a general economic downturn or conditions nor Franchisee's financial inability to perform the terms of this Agreement will be a defense to an action by APF for Franchisee's breach of this Agreement.

23.6. Effective Date.

This Agreement will not be effective until accepted by APF as evidenced by dating and signing by an authorized officer of APF.

23.7. Limitation on Actions.

Notwithstanding anything contained in this Agreement to the contrary, any and all claims and actions arising out of or relating to this Agreement, the relationship between Franchisee and APF, or Franchisee's operation of the Ace Hardware Painting Services Business shall be commenced within one year from the occurrence of the facts giving rise to the claim or action.

23.8. Review of Agreement.

Franchisee acknowledges that it had a copy of this Agreement in its possession for a period of time not less than 14 full days, during which time Franchisee has had the opportunity to submit this Agreement for professional review and advice of Franchisee's choosing prior to freely executing this Agreement.

23.9. Attorneys' Fees.

a. Subject to **Section 23.9.b** below, Franchisee shall reimburse APF for its costs and expenses, including, without limitation, attorneys' fees, which APF incurs in pursuit of its rights following a breach or event of default of or by Franchisee whether or not the pursuit of rights involves litigation or arbitration.

b. The prevailing party in any action arising out of, or related to this Agreement (including an action to compel arbitration) is entitled to recover from the other party all costs and expenses related to the action, including reasonable attorneys' fees, and all costs of collecting monies owed. If both parties are awarded a judgment in any dollar amount, the court or arbitrator, as applicable, shall determine the prevailing party taking into consideration the merits of the claims asserted by each party, the amount of the judgment received by each party and the relative equities between the parties.

23.10. No Waiver.

No waiver of any condition or covenant contained in this Agreement or failure to exercise a right or remedy by APF or Franchisee will be considered to imply or constitute a further waiver by APF or Franchisee of the same or any other condition, covenant, right, or remedy.

23.11. No Right to Set Off.

Franchisee will not be allowed to set off amounts owed to APF for Royalty Fees, National Brand Fees, Software and Internet Fees, or other amounts due hereunder, against any monies owed to Franchisee, which right of set off is expressly waived by Franchisee. No endorsement or statement on any check or payment of any sum less than the full sum due to APF shall be construed as an acknowledgment of payment in full or an accord and satisfaction, and APF may accept and cash such check or payment without prejudice to its right to recover the balance due or pursue any other remedy provided herein or by law. APF may apply any payments made by Franchisee against any past due indebtedness of Franchisee as APF may see fit. APF may set off against any payment due to Franchisee hereunder any outstanding debts of Franchisee to APF, and may, at APF's option, pay Franchisee's trade creditors out of any sum otherwise due to Franchisee.

23.12. Survival of Terms.

Every article and section of this Agreement that by its terms is intended to survive expiration and/or termination of this Agreement shall survive the expiration or termination of this Agreement for any reason and shall apply to a transferor upon a Transfer.

23.13. Invalidity.

In the event that any arbitrator or court of competent jurisdiction determines that any provision of this Agreement, including but not limited to any of the restrictive covenants contained in **Article 20** hereof, are unenforceable as written for any reason, including for purposes of the restrictive covenants, reasons that the areas of restriction exceed the reasonable maximum time period, geographic area or scope, then the parties hereby request and authorize the arbitrator or court to “blue pencil” such provision so as to make it enforceable and to best carry out the intent of the parties, or to deem such provision severed from this Agreement if it cannot be so modified. The holding, declaration or pronouncement shall not adversely affect any other provisions of this Agreement, which shall otherwise remain in full force and effect.

23.14. Notices.

All notices required to be given under this Agreement will be given in writing, by registered or certified mail, return receipt requested, or by an overnight delivery service providing documentation of receipt, at the address set forth below the signatures of APF and Franchisee respectively on the signature page hereto or at such other addresses as APF or Franchisee may designate from time to time; and will be effectively given when deposited in the mails, postage prepaid, or when received via overnight delivery, as may be applicable.

23.15. Force Majeure.

Neither APF nor Franchisee shall be liable for loss or damage or deemed to be in breach of this Agreement if a failure or delay in performance results from: (a) transportation shortage, inadequate supply or unavailability from manufacturers or suppliers of equipment, food products, supplies, labor, material or energy, or the voluntary surrender of the right to acquire or use any of the foregoing in order to accommodate or comply with any order, request, regulation, recommendation or instruction of any federal, state or municipal government; (b) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state or municipal government; (c) viral or bacterial epidemic, pandemic, or other public health crisis; (d) Act of God; (e) fire, strike embargo, war, terrorism, riot, hurricane, tornado, earthquake; or (f) other similar event or cause beyond the control of the party whose performance was prevented or delayed. Any delay resulting from any of these causes shall extend the time for performance or excuse performance, as may be reasonable, except that the causes shall not excuse payments of amounts owed at the time of the occurrence or payment of any amount due thereafter. A party seeking relief under this provision shall as soon as practicable notify the other party of its inability to perform.

23.16. Estoppel Certificates.

Franchisee agrees at any time and from time to time within 10 days after notice from APF, to execute, acknowledge and deliver to APF a statement in writing, form and substance acceptable to APF, verifying that this Agreement is unmodified and in full force and effect (or if there have been modifications, that the Agreement is in full force and effect as modified and stating the modifications),

and whether or not there exists any default in the performance of any term, condition or covenant of this Agreement and, if so, specifying each such default, and such other matters related to this Agreement as APF shall request, it being intended that any such statement delivered pursuant hereto may be relied upon by APF and by any lenders of APF, or any prospective purchasers of all or any part of APF's business.

23.17. Charges and Taxes.

All provisions in the Agreement stating that Franchisee will pay or be responsible for any costs, charges or taxes includes all customs or duty charges, foreign currency purchase levies, import and export fees and levies, and other similar costs, charges and taxes.

23.18. Cross-Default and Cross Termination Provisions.

a. A default by Franchisee under this Agreement will be deemed a default of all agreements between Franchisee and/or any company(ies) affiliated with Franchisee, on the one hand, and APF and/or any company(ies) affiliated with APF, on the other hand (the "**Other Agreements**"). A default by Franchisee and/or any company(ies) affiliated with Franchisee under any of the Other Agreements will be deemed a default under this Agreement. A default by any guarantor(s) of this Agreement or of any of the Other Agreements will be deemed a default of this Agreement.

b. If this Agreement is terminated as a result of a default by Franchisee, APF may, at its option, elect to terminate any or all of the Other Agreements. If any of the Other Agreements is terminated as a result of a default by Franchisee and/or any company(ies) affiliated with Franchisee, APF may, at its option, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any of the Other Agreements will be grounds for termination of this Agreement and/or any and all of the Other Agreements without additional notice or opportunity to cure.

23.19. Manner of Payment.

All references in this Agreement to the term "Dollars" or the symbol "\$" refer to United States Dollars, and all payments made to APF, unless otherwise noted, must be paid in United States Dollars net of any taxes or withholdings. The exchange rate for calculating payments due hereunder shall be the exchange rate published in The Wall Street Journal on the day the payment is due. If The Wall Street Journal is not published on the date a payment is due, the applicable exchange rate shall be that rate published in The Wall Street Journal on the nearest date of publication prior to the payment date, or by a successor or equivalent publication to be designated by APF in the event The Wall Street Journal ceases to be published or ceases to publish the applicable exchange rates. APF may designate and change payment instructions at any time on prior written notice to Franchisee. Franchisee shall be solely responsible for the payment of any costs and charges incurred in connection with the transfer and exchange of currency over and above any fees due or paid.

23.20. Approval Within Territory.

Any approval of this Agreement by the appropriate authorities in the Territory that is required to enable Franchisee to enter into this Agreement, perform under the terms of this Agreement, do business with APF, or to make payments to APF in United States Dollars in the United States of America will be the sole responsibility of Franchisee.

23.21. Translation of Agreement.

The English language will be regarded as the authoritative and official text of this Agreement; however, this Agreement may be translated into the language in dominant use in the Territory, at Franchisee's expense, in the event that translation is necessary for the purpose of registration of the Agreement with the applicable governmental authority. Nevertheless, in the event that any discrepancies exist between the English and the translated text, the English text will be considered the official text of this Agreement.

23.22. Communication with APF.

All communication by Franchisee with APF, whether written or oral, must be in English.

23.23. Incorporation of Riders.

To the extent that any of the Riders to Franchise Agreement for Specific States or Provinces attached as Exhibit VI is applicable, such rider is incorporated herein and this Agreement is modified accordingly. The provisions in any applicable rider are included as a condition to registration or use in certain jurisdictions, and APF is not precluded from contesting the validity, enforceability, or applicability of such provisions in any action relating to this Agreement or its rescission or termination.

23.24. Counterparts; Electronic Signatures.

This Agreement and any riders and addenda hereto may be executed in any number of identical counterparts and via electronic signatures, and each such counterpart shall be deemed a duplicate original hereof.

23.25. Acknowledgement.

BEFORE SIGNING THIS AGREEMENT, FRANCHISEE SHOULD READ IT CAREFULLY AND DISCUSS ITS PROVISIONS WITH ITS LEGAL COUNSEL. FRANCHISEE ACKNOWLEDGES ALL OF THE FOLLOWING:

A. FRANCHISEE OR ITS PRINCIPAL REPRESENTATIVE HAS BEEN AFFORDED THE OPPORTUNITY TO ASK QUESTIONS AND REVIEW MATERIALS OF APF THAT FRANCHISEE OR ITS PRINCIPAL REPRESENTATIVE DEEMS RELEVANT IN ORDER TO MAKE A DECISION TO ENTER INTO THIS AGREEMENT AND ACQUIRE A FRANCHISE HEREUNDER.

B. FRANCHISEE OR ITS PRINCIPAL REPRESENTATIVE HAS SUCH KNOWLEDGE AND EXPERIENCE IN FINANCIAL, TAX AND BUSINESS MATTERS AND HAS PRIOR EXPERIENCE SO AS TO ENABLE FRANCHISEE OR ITS PRINCIPAL REPRESENTATIVE TO UTILIZE THE INFORMATION MADE AVAILABLE TO FRANCHISEE AND FULLY UNDERSTAND SUCH INFORMATION.

C. THE SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED HEREIN INVOLVES SUBSTANTIAL RISKS AND DEPENDS UPON FRANCHISEE'S ABILITY AS AN INDEPENDENT BUSINESS PERSON AND ITS ACTIVE PARTICIPATION IN THE DAILY AFFAIRS OF THE BUSINESS.

D. NO ASSURANCE OR WARRANTY, EXPRESS OR IMPLIED, HAS BEEN GIVEN TO FRANCHISEE OR ITS PRINCIPAL REPRESENTATIVE AS TO THE POTENTIAL SUCCESS OF SUCH BUSINESS VENTURE OR THE EARNINGS LIKELY TO BE ACHIEVED.

E. NO STATEMENT, REPRESENTATION OR OTHER ACT, EVENT OR COMMUNICATION, EXCEPT AS SET FORTH IN THIS DOCUMENT AND IN ANY DISCLOSURE DOCUMENT SUPPLIED TO FRANCHISEE, IS BINDING ON APF IN CONNECTION WITH THE SUBJECT MATTER OF THIS AGREEMENT, AND, IN ENTERING INTO THIS AGREEMENT, FRANCHISEE IS NOT RELYING ON THE EXISTENCE OR NON-EXISTENCE OF ANY FACT OR MATTER NOT SET FORTH IN THIS AGREEMENT OR IN A DISCLOSURE DOCUMENT SUPPLIED TO FRANCHISEE.

F. NEITHER FRANCHISEE, NOR ANY FRANCHISEE AFFILIATE, IS SUBJECT TO UNITED STATES EXECUTIVE ORDER 13224 OR THE PATRIOT ACT. IF FRANCHISEE OR ANY FRANCHISEE AFFILIATE BECOMES SUBJECT TO UNITED STATES EXECUTIVE ORDER 13224 OR THE PATRIOT ACT, FRANCHISEE OR THAT FRANCHISEE AFFILIATE SHALL NOTIFY APF IMMEDIATELY THEREOF.

[SIGNATURES FOLLOW ON NEXT PAGE]

The parties have executed this Agreement to be made effective as of the ____ day of _____, 202____.

APF:
ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

FRANCHISEE:
IF AN INDIVIDUAL:

By: _____
Date: _____

Signature

Address for Notice:

Print Name: _____

12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228, U.S.A.
Fax No: 303-984-0133

IF A PARTNERSHIP, LIMITED LIABILITY
COMPANY, CORPORATION, OR OTHER
ENTITY:

With a copy to (before January 1, 2024):

Print Company Name

2200 Kensington Court
Oak Brook, Illinois 60523
Attn: Legal Department

By: _____
Signature

With a copy to (on or after January 1, 2024):

Print Name and Title: _____

Date: _____

2915 Jorie Blvd.
Oak Brook, Illinois 60523
Attn: Legal Department

Address for Notice: _____

EXHIBIT I
TO FRANCHISE AGREEMENT

ADDENDUM TO FRANCHISE AGREEMENT

This Addendum to the Franchise Agreement (the “**Addendum**”), dated as of the date set forth below, modifies and amends that certain ACE HARDWARE PAINTING SERVICES Franchise Agreement (the “**Agreement**”), by and between Ace Painting Franchising, LLC, hereinafter “**APF**,” and the undersigned franchisee, hereinafter “**Franchisee**.” This Addendum modifies the terms of the Agreement and in the event of a conflict in terms between the Agreement and this Addendum, the terms of this Addendum shall be controlling.

The parties agree as follows:

1. Business Location. The Business Location, referenced in **Section 4.1** of the Agreement, will be located at: _____.

2. Territory. The Territory, referenced in **Section 4.2** of the Agreement will be the geographical areas described as follows: _____, as defined by the Territory Zip or Postal Codes on Exhibit A-1 attached hereto, with a household count of _____.

3. Initial Franchise Fee. The Initial Franchise Fee payable to APF, referenced in **Section 5.1**, shall be \$_____.

4. Pursuant to **Section 7.3** of the Agreement, Franchisee shall be deemed to have commenced business no later than the following date, which is 120 days following the end of the Initial Training Program currently scheduled for Franchisee (if known): _____. If currently unknown, the parties will subsequently execute the Commencement Date Supplement to Franchise Agreement set forth in Exhibit II to the Agreement in order to specify the commencement date.

5. Minimum Annual Gross Revenues. The Minimum Annual Gross Revenues referenced in **Section 12.4** of the Agreement, shall commence on _____ (the month starting on such date deemed “**Month 4**” in the below table), and shall be as follows:

Period	Minimum Annual Gross Revenues
First Year	\$200,000
Second Year	\$400,000
Third Year and thereafter	\$500,000

6. Other Provisions:

Fully executed this ____ day of _____, 202____.

APF:

ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

FRANCHISEE:

IF AN INDIVIDUAL:

By: _____
Date: _____

Signature

Print Name: _____

IF A PARTNERSHIP, LIMITED LIABILITY
COMPANY, CORPORATION, OR OTHER
ENTITY:

Print Name of Company

By: _____
Signature
Print Name and Title: _____
Date: _____

By: _____
Signature
Print Name and Title: _____
Date: _____

**EXHIBIT A-1
TO ADDENDUM**

TERRITORY ZIP OR POSTAL CODES

As used in this Agreement, the “**Territory**” means the geographic area in _____, _____ comprised of the zip or postal codes set forth below as of the date of this Agreement. For the avoidance of doubt, the Territory shall also include any other zip or postal codes that may cover the geographic area described by the zip or postal codes set forth below if and to the extent that the government subdivides or otherwise modifies the zip or postal codes set forth below.

**EXHIBIT II
TO FRANCHISE AGREEMENT**

COMMENCEMENT DATE SUPPLEMENT TO FRANCHISE AGREEMENT

This is a Supplement (the “**Supplement**”) to the Franchise Agreement (the “**Agreement**”) by and between Ace Painting Franchising, LLC, hereinafter “**APF**,” and the undersigned franchisee, hereinafter “**Franchisee**.”

1. Commencement Date. In paragraph 4 of the Addendum to the Agreement, APF and Franchisee did not list the date on which Franchisee is deemed to have commenced Franchisee’s Ace Hardware Painting Services Business under the Agreement. APF and Franchisee have now determined the date of the commencement of the business. Therefore, pursuant to **Section 7.3** of the Agreement, Franchisee shall be deemed to have commenced business no later than the following date, which is 120 days following the end of Franchisee’s Initial Training Program: _____.

2. Conflicts; Ratification. The terms of this Supplement shall control over the conflicting terms of the Agreement, including the Addendum. In all other respects, the Agreement and the Addendum are ratified, affirmed and confirmed, and shall remain in full force and effect in their original form. All capitalized terms in this Supplement that are not defined herein shall have the meaning ascribed to them in the Agreement.

The parties have executed this Supplement as of the date set forth below each of their signatures below, to be made effective as of the Effective Date of the Agreement, regardless of the date signed.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

Fully executed this ____ day of _____, 202____.

APF:

ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

FRANCHISEE:

IF AN INDIVIDUAL:

By: _____
Date: _____

Signature

Print Name: _____

IF A PARTNERSHIP, LIMITED LIABILITY
COMPANY, CORPORATION, OR OTHER
ENTITY:

Print Name of Company

By: _____
Signature
Print Name and Title: _____
Date: _____

By: _____
Signature
Print Name and Title: _____
Date: _____

**EXHIBIT III
TO FRANCHISE AGREEMENT**

**GUARANTY AND ASSUMPTION OF
FRANCHISEE'S OBLIGATIONS**

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of Franchise Agreement (the "**Franchise Agreement**") executed on the date set forth below is by and between each of the undersigned and **ACE PAINTING FRANCHISING, LLC**, a Delaware limited liability company, having its head office at 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228, U.S.A. ("**APF**"), each of the undersigned personally and unconditionally:

1. Guarantees to APF and its successors and assigns, for the Term, including renewals and successor franchise terms thereof, that the franchisee named on the signature page hereof ("**Franchisee**") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Franchise Agreement.

2. Agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Franchise Agreement, including but not limited to, the terms of the articles and sections pertaining to non-competition during and after the Term, confidentiality and the Marks and Copyrighted Works of the APF.

3. Each of the undersigned waives all of the following:

(a) Acceptance and notice of acceptance by APF of the foregoing undertaking.

(b) Notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed.

(c) Protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed.

(d) 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.

(e) Notice of any amendment, modification, deletion or addition of any term or condition of or to any of the obligations hereby guaranteed.

(f) Notice of any termination as to future liability of any other guarantor.

(g) Any and all other notices and equitable defenses to which he or she may be entitled.

4. Each of the undersigned consents and agrees that:

(a) His or her direct and immediate liability under this Guaranty shall be joint and several.

(b) He or she shall render any payment or performance required under the Franchise Agreement upon demand if Franchisee fails or refuses punctually to do so.

(c) Such liability shall not be contingent or conditioned upon pursuit by APF of any remedies against Franchisee or any other person.

(d) Such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which APF 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, including renewals and successor franchise terms thereof.

(e) He or she shall be bound by the restrictive covenants, confidentiality provisions, audit provisions, and indemnification provisions contained in the Franchise Agreement.

(f) APF may, at its option, without notice to or further consent of him or her, take any of the following actions:

(i) retain the primary or secondary liability of any other party with respect to all or any part of the obligations hereby guaranteed.

(ii) release or compromise any liability of any other guarantor or any other party with respect to the obligations hereby guaranteed.

(iii) amend, modify, delete, or add any term or condition of or to any of the obligations hereby guaranteed, which may include the creation of new obligations.

5. No delay or neglect on the part of APF in the exercise of any right or remedy existing under law or by virtue of this Guaranty shall operate as a waiver thereof, but such rights and remedies shall continue in full force and effect until specifically waived or released by an instrument in writing executed by APF and designated as a waiver or release; and no single or partial exercise by APF of any right or remedy shall preclude further exercise thereof or the exercise of any right or remedy.

6. The arbitration, injunctive relief, governing law and jurisdiction provisions contained in the Franchise Agreement shall govern this Guaranty, and such provisions are incorporated into this Guaranty by this reference.

7. This Guaranty may be executed via electronic signature.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, each of the undersigned has affixed his or her signature effective on the ____ day of _____, 202 ____.

Name of Franchisee:

(Location Name)

GUARANTOR(S)

Signature

Print Name

Address

Telephone Number _____

Signature

Print Name

Address

Telephone Number _____

Signature

Print Name

Address

Telephone Number _____

**EXHIBIT IV
TO FRANCHISE AGREEMENT**

STATEMENT OF OWNERSHIP

STATEMENT OF OWNERSHIP

Franchisee: _____
(Print Company Name or Individual Franchisee's Name)

Trade Name (if different from above): _____

Complete the applicable section below based on your form of ownership and entity:

☐ **INDIVIDUAL/SOLE PROPRIETORSHIP**

Country/state/province of residence: _____

Date of birth: _____

☐ **PARTNERSHIP**

Name and address of each partner, showing percentage ownership of each: _____

State whether each partner identified above is or will be active in the business: _____

Country/state/province of formation: _____

Date of formation: _____

Attach a copy of the Partnership Agreement and any other formation documentation.

☐ **CORPORATION**

Name and address of each shareholder, showing percentage of stock owned by each: _____

Name and address of each officer and director: _____

Country/state/province of incorporation: _____

Date of incorporation: _____

Attach a copy of the Articles of Incorporation certified by the Secretary of State or other official in the place of incorporation.

☐ **LIMITED LIABILITY COMPANY**

Name and address of each member, showing percentage ownership of each: _____

Name and address of each manager: _____

Country/state/province of formation: _____

Date of formation: _____

Attach a copy of the Articles of Organization or other formation document certified by the Secretary of State or other official in the place of formation and a copy of the signed Operating Agreement.

☐ **OTHER TYPE OF ENTITY**

Name and address of each owner, showing percentage ownership of each: _____

Name and address of each manager and officer: _____

Country/state/province of formation: _____

Date of formation: _____

Attach a copy of the articles or other formation document certified by the Secretary of State or other official in the place of formation.

Franchisee acknowledges that this Statement of Ownership applies to the Ace Hardware Painting Services Business authorized under Franchise Agreement.

Use additional sheets if necessary. Any and all changes to the above information must be reported to APF in writing.

Date _____

Signature: _____

Print Name: _____

Date _____

Signature: _____

Print Name: _____

**EXHIBIT V
TO FRANCHISE AGREEMENT**

**COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS, TELEPHONE LISTINGS,
INTERNET ADDRESSES, AND SOCIAL MEDIA WEBSITES**

**COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS,
TELEPHONE LISTINGS, INTERNET ADDRESSES, AND SOCIAL MEDIA WEBSITES**

THIS COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS, TELEPHONE LISTINGS, INTERNET ADDRESSES, AND SOCIAL MEDIA WEBSITES (the “**Assignment**”) is entered into on the day and date set forth on the signature page hereof, by and between Ace Painting Franchising, LLC, a Delaware limited liability company (“**APF**”) and the undersigned franchisee (“**Franchisee**”). This Assignment is executed in accordance with the terms of that certain Ace Painting Franchising, LLC Franchise Agreement (the “**Franchise Agreement**”) under which APF granted Franchisee the right to own and operate an Ace Hardware Painting Services Business located at the business location set forth on the signature page hereof (the “**Franchise Business**”).

FOR VALUE RECEIVED, Franchisee assigns to APF (1) those certain telephone numbers and regular, classified or other telephone directory listings (collectively, the “**Telephone Numbers and Listings**”), (2) those certain Internet Website Addresses (“**URLs**”), and (3) those certain social media websites or accounts (collectively, the “**Social Media Sites**”), that are associated with APF’s trade and service marks and used from time to time in connection with the operation of Franchise Business. This Assignment is for collateral purposes only and, except as specified herein, APF shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment, unless APF shall notify the telephone company and/or the listing agencies with which Franchisee has placed telephone directory listings (all such entities are collectively referred to herein as “**Telephone Company**”), Franchisee’s Internet service provider (“**ISP**”), or the relevant social media website operator (“**Social Media Operator**”) to effectuate the assignment pursuant to the terms hereof.

Upon termination or expiration of the Franchise Agreement (without renewal or extension), APF shall have the right and is hereby empowered to effectuate the assignment of the Telephone Numbers and Listings, the URLs, and the Social Media Sites, and, in such event, Franchisee shall have no further right, title or interest in the Telephone Numbers and Listings, URLs, and Social Media Sites, and shall remain liable to the Telephone Company, the ISP, and the Social Media Operator for all past due fees owing to the Telephone Company, the ISP, and the Social Media Operator on or before the effective date of the assignment hereunder.

Franchisee agrees and acknowledges that as between APF and Franchisee, upon termination or expiration of the Franchise Agreement, APF shall have the sole right to and interest in the Telephone Numbers and Listings, URLs, and Social Media Sites, and Franchisee appoints APF as Franchisee’s true and lawful attorney-in-fact to direct the Telephone Company, the ISP, and the Social Media Operator to assign them to APF, and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event, Franchisee shall immediately notify the Telephone Company, the ISP, and the Social Media Operator to assign the Telephone Numbers and Listings, URLs, and Social Media Sites to APF. If Franchisee fails to promptly direct the Telephone Company, the ISP, and the Social Media Operator to assign the Telephone Numbers and Listings, URLs, and Social Media Sites to APF, APF shall direct the Telephone Company, the ISP, and the Social Media Operator to effectuate the assignment contemplated hereunder to APF. The parties agree that the Telephone Company, the ISP, and the Social Media Operator may accept APF’s written direction, the Franchise Agreement or this Assignment as conclusive proof of APF’s exclusive rights in and to the Telephone Numbers and Listings, URLs, and Social Media Sites upon such termination or expiration and that such assignment shall be made automatically and effective immediately upon Telephone Company’s, ISP’s, and Social Media Operator’s receipt of such notice from APF or Franchisee. The parties further agree that if the Telephone Company, the ISP, or the Social Media Operator requires that the parties execute the Telephone

Company's, the ISP's, or the Social Media Operator's assignment forms or other documentation at the time of termination or expiration of Franchise Agreement, APF's execution of such forms or documentation on behalf of Franchisee shall effectuate Franchisee's consent and agreement to the assignment. The parties agree that at any time after the date hereof they will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the assignment described herein upon termination or expiration of Franchise Agreement.

IN WITNESS WHEREOF, the parties have entered into this Assignment on the ____ day of _____, 202____.

Business Location: _____
(Location Name)

ASSIGNEE

Ace Painting Franchising, LLC

By: _____

Signature

Print Name: _____

Title: _____

ASSIGNOR

(Print Company or Individual Franchisee Name)

By: _____

Signature

Print Name: _____

Title: _____

By: _____

Signature

Print Name: _____

Title: _____

**EXHIBIT VI
TO FRANCHISE AGREEMENT**

RIDERS TO FRANCHISE AGREEMENT FOR SPECIFIC STATES OR PROVINCES

If any one of the following Riders to the Franchise Agreement for Specific States or Provinces (“**Riders**”) is checked as an “Applicable Rider” below, then that Rider shall be incorporated into the Franchise Agreement entered into by Ace Painting Franchising, LLC and the undersigned Franchisee. To the extent any terms of an Applicable Rider conflict with the terms of the Franchise Agreement, the terms of the Rider shall supersede the terms of the Franchise Agreement.

APPLICABLE RIDER:

United States

- | | |
|--|--|
| ☐ Illinois | ☐ North Dakota |
| ☐ Indiana | ☐ Rhode Island |
| ☐ Michigan | ☐ Wisconsin |

ACE PAINTING FRANCHISING, LLC

(Print Company or Individual Franchisee Name)

By: _____
Signature

By: _____
Signature

Title: _____

Title: _____

Date: _____

Date: _____

By: _____
Signature

Title: _____

Date: _____

UNITED STATES RIDERS TO THE FRANCHISE AGREEMENT

ILLINOIS RIDER TO THE FRANCHISE AGREEMENT

1. **Section 22.5** is amended to provide that Illinois law governs this Agreement.
2. Section 4 of the Illinois Franchise Disclosure Act of 1987 (the “**Illinois Act**”) provides that any provision in a franchise agreement that designates jurisdiction or venue in a forum outside of the State of Illinois is void provided that a franchise agreement may provide for arbitration in a forum outside of the State of Illinois.
3. Section 41 of the Illinois Act provides that any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Act or any other law of the State of Illinois is void. Section 41 does not prevent any person from entering into a settlement agreement or executing a general release regarding a potential or actual lawsuit filed under any of the provisions of the Illinois Act, nor does it prevent the arbitration of any claim pursuant to the provision of Title 9 of the United States Code.

INDIANA RIDER TO THE FRANCHISE AGREEMENT

The following modifications are made to the Franchise Agreement only to the extent required by the Indiana Franchises Act, IND. CODE § 23-2-2.5, and the Indiana Deceptive Franchise Practices Act, IND. CODE § 23-2-2.7:

1. The following language is added to **Section 4.4**:

Indiana law prohibits APF from establishing an APF-owned outlet engaged a substantially identical business within Franchisee’s Territory.

2. The last sentence of **Section 14.2** is supplemented with the following language:

Provided, however, that any amounts retained by APF will be for compensation for services provided.

3. **Section 20.2** is revised to delete any restriction on operating or otherwise being involved with a Competitive Business within 25 miles of the closest point of the territory of any other Ace Hardware Painting Services Business.

4. **Section 22.5** is deleted and replaced with the following language:

The United States Federal Arbitration Act shall govern all questions about the enforceability of the dispute resolution procedures in this Agreement and the confirmation of any arbitration awards pursuant to such procedures, and no arbitration issues are to be resolved pursuant to any state statutes, regulations or common law. Otherwise, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or applicable international trademark law, disputes related to a violation of the Indiana Franchises Act or the Indiana Deceptive Franchise Practices Act shall be governed thereby, and all other matters regarding this Agreement shall be governed by the laws of the State of Colorado. Notwithstanding the foregoing, the parties agree that the Colorado Consumer Protection Act (COLO. REV. STAT. ANN Section 6-1-101, et seq.) shall not apply to this Agreement or any disputes between the parties. Subject to the foregoing, Franchisee and APF have negotiated

regarding a forum in which to resolve any disputes which may arise between them and have agreed to select a forum in order to promote stability in their relationship. Therefore, if a claim is asserted in any legal proceeding not subject to mandatory arbitration, as specified in **Section 22.1** above, involving Franchisee or the Franchisee Affiliates and APF or the APF Affiliates, both parties agree that the exclusive venue for disputes between them shall be in the state and federal courts of Colorado, U.S.A., and each waive any objection either may have to the personal jurisdiction of or venue in the state and federal courts of Colorado, U.S.A. Notwithstanding the foregoing, any legal proceeding by APF or any APF Affiliate not subject to mandatory arbitration may be brought in any court of competent jurisdiction in the country, state, province, or other geographic area in which the Ace Hardware Painting Services Business is located or in which Franchisee or any Franchisee Affiliate resides or owns assets. IF A CLAIM MAY BE BROUGHT IN COURT, THEN APF, THE APF AFFILIATES, FRANCHISEE AND THE FRANCHISEE AFFILIATES EACH WAIVE THEIR RIGHTS TO A TRIAL BY JURY.

MICHIGAN RIDER TO THE FRANCHISE AGREEMENT

1. The 14 day waiting period in **Section 23.8** is replaced with a 10 business-day waiting period.

NORTH DAKOTA RIDER TO FRANCHISE AGREEMENT

1. The North Dakota Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees:

A. Restrictive Covenants: Franchise Disclosure Documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.

B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.

C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.

D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.

E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.

F. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.

G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.

H. General Release: Franchise agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.

I. Limitation of Claims: Franchise agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.

RHODE ISLAND RIDER TO THE FRANCHISE AGREEMENT

1. The following paragraph is added at the end of **Section 22.1**:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

The above language has been included in this Agreement as a condition to registration. APF and Franchisee do not agree with the above language and believe that each of the provisions of the Agreement, including all choice of law provisions, are fully enforceable. APF and Franchisee intend to fully enforce all of the provisions of the Agreement and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

WISCONSIN RIDER TO THE FRANCHISE AGREEMENT

1. The following paragraph is added to the end of **Article 18**:

The conditions under which this Agreement can be terminated or not renewed may be effected by the Wisconsin Fair Dealership Law, Wisconsin Statutes 1981-82, Title XIV-A, Chapter 135.

ATTACHMENT B
NONDISCLOSURE AND NONCOMPETITION AGREEMENT

NONDISCLOSURE AND NONCOMPETITION AGREEMENT

This Nondisclosure and Noncompetition Agreement (the “**Agreement**”) is made effective on the date set forth on the signature page hereof, by and between ACE PAINTING FRANCHISING, LLC, a Delaware limited liability company (“**APF**”), the undersigned franchisee (the “**Company**”), and the undersigned owner of the Company or relative (“**Principal**”).

RECITALS

A. APF is engaged in the business of operating and selling franchises for the operation of painting services businesses (“**Ace Hardware Painting Services Businesses**”), associated with the mark “ACE HARDWARE PAINTING SERVICES™,” and related marks and utilizing APF’s unique system for operating the businesses and related licensed methods of doing business (“**Licensed Methods**”);

B. APF and its affiliates have developed proprietary methods for establishing, operating and promoting the Ace Hardware Painting Services Businesses utilizing certain confidential information relating to Company and its operations as more fully described herein, and have established substantial goodwill and an excellent reputation with respect to the quality of the services available through Ace Hardware Painting Services Businesses, which goodwill and reputation have been and will continue to be of major benefit to APF;

C. Company is a franchisee under an effective agreement with APF (the “**Franchise Agreement**”);

D. Principal is or will become an owner of the Company or is related to a person who is an owner of the Company (such ownership or relationship to the person holding the ownership is referred to herein as “**Affiliation**”), and will become privileged as to certain confidential information related to APF, its operations, the Ace Hardware Painting Services Businesses and/or the Licensed Methods; and

E. Principal, Company and APF have reached an understanding and agreement with regard to nondisclosure by Principal of confidential information and with respect to noncompetition by Principal with APF and Company.

NOW THEREFORE, in consideration of the foregoing, the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, Principal, Company and APF, intending legally to be bound, agree as follows:

AGREEMENT

1. **Confidential Information.** Principal recognizes and agrees that certain proprietary information relating to APF and its operations (“**Confidential Information**”) is owned by and treated as confidential by APF and Company, including without limitation, (1) all proprietary information concerning APF’s business and the Ace Hardware Painting Services Businesses; (2) all APF’s financial information other than financial information filed with any government regulatory agency; (3) franchise sales methods; (4) sales methods used to sell services by Ace Hardware Painting Services Businesses; (5) all nonpublic statistical information; (6) the strategic plan, budgets and projections for APF; (7) all information concerning negotiations of any kind conducted by APF whether pending or completed; (8) all marketing research data and marketing plans, including information relating to marketing of services through Ace Hardware Painting Services Businesses; (9) all information contained in APF’s operations manuals, and any other manual or other nonpublic written information; (10) internal lists of APF’s

franchisees and clients of APF and its franchisees; and (11) all other information that may be considered a trade secret or proprietary and such Confidential Information that may be further developed from time to time by APF.

2. Use and Disclosure of Confidential Information. Principal acknowledges that, in connection with Principal's Affiliation with Company, APF or Company will disclose in strict confidence certain Confidential Information necessary for the operation of an Ace Hardware Painting Services Business or for sale of services through such Ace Hardware Painting Services Businesses. Principal specifically acknowledges that the Confidential Information is valuable, unique and comprises a substantial portion of the assets of APF; and Principal agrees that he or she will not utilize all or any portion of the same for Principal's personal benefit during the term of Principal's Affiliation with Company, nor in any manner use the same subsequent to the termination of Principal's Affiliation with Company or the termination or expiration of the Franchise Agreement, nor disclose any of the same to any person, firm, corporation or other entity whatsoever, including but not limited to a Competitive Business, as defined below, at any time for any reason or purpose, without the prior written consent of APF. Principal shall not copy, publish or otherwise duplicate the Confidential Information or permit others to do so and shall return all Confidential Information to APF or Company upon termination of Principal's Affiliation with Company. Principal may disclose to other employees, agents, or representatives of APF or Company the Confidential Information only to the extent necessary for such employees, agents or representatives to carry out their intended function.

3. Prohibitions as to Employing Personnel. During the term of Principal's Affiliation with the Company, and for a period of 24 months after the earlier of (i) the effective date of termination or expiration of Principal's Affiliation with the Company, or (ii) the effective date of termination or expiration of the Company's Franchise Agreement, Principal shall not directly or indirectly solicit or attempt to solicit for the purposes of employment or consultation outside Company any present or former employee, agent or representative of APF, Company or any other franchisee of APF, without the prior written consent of APF and Company.

4. Noncompetition Covenant. Principal covenants and agrees that, during the term of his or her Affiliation, except while conducting Company's business in a manner authorized by APF and Company, Principal shall not, either directly or indirectly through any member of Principal's immediate family, separate business entity or otherwise:

(a) have any direct or indirect controlling interest as a disclosed or beneficial owner in a "Competitive Business," as defined below; or

(b) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business.

The term "**Competitive Business**" as used in this Agreement means any business operating, or granting franchises or licenses to others to operate, a business that is similar to an Ace Hardware Painting Services Business, including a business that provides painting, staining and related services for residential and commercial customers. However, Principal will not be prohibited by this Agreement from owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent 2% or less of that class of securities issued and outstanding.

5. Post-Termination Covenant Not to Compete. During the term of Principal's Affiliation with the Company, and for a period of 24 months after the earlier of (i) the effective date of termination or expiration of Principal's Affiliation with the Company, or (ii) the effective date of

termination or expiration of the Company's Franchise Agreement, neither Principal, nor any member of Principal's immediate family, shall have any direct or indirect interest, as a disclosed or a beneficial owner, investor, partner, director, officer, employee, consultant, representative or agent or in any other capacity, in any Competitive Business within 25 miles of the closest point of Company's Territory (as defined in Company's Franchise Agreement with APF) or any territory of any Ace Hardware Painting Services Businesses owned by APF, any affiliate of APF or any other franchisee of APF. If Principal or any member of Principal's immediate family breaches either of Sections 5 or 6, then the 24-month period under each of these Sections shall start on the date that Principal or its family member, as applicable, is enjoined from such activity or ceases such activity, whichever is later. Principal expressly acknowledges that he or she possesses business and career skills and abilities of a general nature and has other opportunities for exploiting such skills and abilities. Consequently, enforcement of this covenant will not deprive Principal of his or her personal goodwill or ability to earn a living.

6. No Diversion of Business. During the term of Principal's Affiliation with the Company, and for a period of 24 months after the earlier of (i) the effective date of termination or expiration of Principal's Affiliation with the Company, or (ii) the effective date of termination or expiration of the Company's Franchise Agreement, Principal agrees not to divert or attempt to divert any business related to the Company, APF or any other franchisee of APF, or any client or account of the Company, APF or any other franchisee of APF, by direct inducement or otherwise.

7. Audit of Business Records. APF or its authorized agent may request, receive, inspect, and audit any business records, financial or otherwise, of Principal, Principal's immediate family members, or any party affiliated with Principal or its immediate family members, including any companies or entities associated with Principal or its immediate family members, that APF in its sole discretion determines may be relevant in determining Principal's compliance with the terms of this Agreement or Franchisee's business results in its Ace Hardware Painting Services Business. The records subject to this audit include (i) tax returns; (ii) quarterly and/or annual financial statements, including profit and loss statements and balance sheets; (iii) copies of checks, check ledgers, and bank statements for checking and savings accounts; (iv) all contracts or agreements entered into with any third parties related to the Ace Hardware Painting Services Business, including but not limited to contracts with customers; and (v) any other documents requested by APF. Any such inspection or audit shall be conducted in accordance with the audit provisions set forth in the Franchise Agreement, which are deemed incorporated herein. Inspections and audits conducted at Principal's business location or other location where the records are held may take place without prior notice, during normal business hours. APF may also require at any time the records from Principal or its affiliated parties be sent to APF's offices or another location to permit the inspection or audit of such records to be conducted at APF's place of business or the other location. If APF notifies Principal that documents are to be sent to a location other than Principal's business location for the purpose of conducting an inspection or audit at that location, Principal shall provide the requested documents to APF within the time period set forth in APF's notice. APF may audit and inspect documents covering a period beginning with the date on which Principal's Affiliation commenced and ending on the date such audit is concluded. All documents provided for APF's inspection or audit must be certified by Principal and the appropriate affiliated party, if applicable, as true, complete and correct. Inspections and audits may be conducted following the expiration or termination of Principal's Affiliation for any reason.

8. Injunction. Principal hereby acknowledges and agrees that in the event of any breach or threatened breach of this Agreement, APF or Company shall be authorized and entitled to seek, from any court of competent jurisdiction, preliminary and permanent injunctive relief in addition to any other rights or remedies to which APF or Company may be entitled.

9. **Assignment.** Company or APF may assign all or part of this Agreement and the rights which inure to either of them hereunder without the consent of Principal, provided that any assignment by the Company shall require the written consent of APF. This Agreement shall not be assignable by Principal.

10. **Effect of Waiver.** The waiver by Principal, Company or APF of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

11. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of Principal, Company and APF and their respective heirs, executors, representatives, successors and assigns.

12. **Entire Agreement.** This instrument contains the entire agreement of Principal, Company and APF relating to the matters set forth herein. It may not be changed orally, but only by an agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. Further, both Principal and Company agree that no change to this Agreement shall be made without the written consent of APF having first been obtained.

13. **Governing Law.** If APF is a party to any action, this Agreement shall be governed by and construed under the laws of the State of Colorado, U.S.A. Otherwise, this Agreement shall be governed by and construed under the laws of the state or province where Company is located.

14. **Arbitration.** Any and all controversies, disputes or claims between APF, its subsidiaries and affiliated companies or their shareholders, officers, directors, agents, employees and attorneys (in their representative capacity); Company, its shareholders, officers, directors, agents and employees; and/or Principal arising out of or related to: (1) this Agreement; (2) the relationship of the parties; or (3) the validity of this Agreement shall be submitted for arbitration on the demand of any involved party; except for actions for injunctive relief pursuant to Section 8 above, which actions APF and/or Company at their option may bring either in a court of competent jurisdiction or in arbitration. If APF is a party to any controversy, dispute or claim, such arbitration proceedings shall be conducted in Denver, Colorado, U.S.A., will be submitted to the Denver, Colorado, U.S.A. office of either the Judicial Arbitrator Group or the American Arbitration Association (“AAA”), as selected by the party submitting the arbitration demand, and will be heard by one arbitrator in accordance with the then current rules of AAA applicable to commercial arbitration. The arbitrator shall be a resident of the State of Colorado, U.S.A. knowledgeable of Colorado law and fluent in English. The arbitration proceeding and all other hearings shall be conducted in English only, although Principal shall have the right, at Principal’s option and sole expense, to have a translator present at the proceeding or other hearings. Any party to such arbitration may apply to the arbitrator for reasonable discovery from the other. For purposes of the foregoing sentence, the term “reasonable discovery” shall mean a party may submit no more than ten interrogatories, including subparts, 25 requests for admission, 25 document requests, and three depositions per side of the dispute. With respect to any arbitration proceedings to which APF is a party, the foregoing discovery rights and limitations shall control over any contradictory discovery rules of AAA, unless the parties agree otherwise. If APF is not a party to such controversy, dispute or claim, such arbitration proceedings shall be conducted within the Territory (as defined in the Franchise Agreement between Company and APF) of the Company and will be heard by one arbitrator in accordance with the then current commercial arbitration rules of AAA if the Territory is located in the U.S.A., or of any other arbitration group acceptable to Company and Principal, if the Territory is located outside the U.S.A. The decision as to whether a claim is subject to mandatory arbitration shall be made by an arbitrator, not a court.

15. Severability. If any provision of this Agreement shall be held, declared or pronounced void, voidable, invalid, unenforceable or inoperative for any reason, by any court of competent jurisdiction, government authority or otherwise, the parties authorize and request such court or governmental authority to modify the provision held to be void, voidable, invalid, unenforceable or inoperative to contain such lesser covenants that impose the maximum duty permitted by law so that the provision is upheld as valid, and the parties agree to be bound by such modified provision. Further such holding, declaration or pronouncement shall not affect adversely any other provisions of this Agreement which shall otherwise remain in full force and effect.

16. Attorneys' Fees. If APF or Company must enforce any of the provisions or rights under this Agreement in any action at law or in equity and if the Company and/or APF is successful in such litigation as determined by the court in a final judgment or decree taking into consideration the merits of the claims asserted by each party, then the Principal shall pay APF or Company, as applicable, all costs, expenses and reasonable attorneys' fees incurred by APF and/or Company (including without limitation such costs, expenses and fees on any appeals), and if APF and/or Company shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees shall be included as part of such judgment.

17. Definitions. All capitalized terms not defined in this Agreement have the respective meanings set forth in the effective Franchise Agreement between Company and APF.

18. Cross Default. A default by Principal under this Agreement will be deemed a default of all agreements between Franchisee and APF, unless waived by APF in writing.

19. Counterparts; Electronic Signature. This Agreement may be executed in counterparts and via electronic signatures.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

The parties have signed this Agreement on the date set forth below.

“APF”

ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

By: _____
Its: _____
Date: _____

Address: 12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228, U.S.A.

“COMPANY”

a _____

By: _____
Its: _____
Date: _____

Address: _____

“PRINCIPAL”

Name: _____
Date: _____

Address: _____

ATTACHMENT C
STATEMENT OF PROSPECTIVE FRANCHISEE

ACE PAINTING FRANCHISING, LLC
STATEMENT OF PROSPECTIVE FRANCHISEE

(Note: Dates and Answers Must be completed in the Prospective Franchisee's Own Handwriting.)

Since the prospective franchisee (also called "me," "our", "us", "we", and/or "I" in this document) and Ace Painting Franchising, LLC (also called "APF", "you", or "your") both have an interest in making sure that no misunderstanding exist between each of us, and to verify that no violations of law might have occurred, and understanding that APF is relying on the statements I/we make in this document, I/we advise APF as follows:

A. The following dates and information are true and correct:

1. The date of our first face-to-face meeting with any person to discuss the possible purchase of an Ace Hardware Painting Services Business.

2. The date on which I/we received a Franchise Disclosure Document providing me/us with information regarding the purchase of an Ace Hardware Painting Services Business.

3. The date when I/we received a fully completed copy (other than signatures) of the Franchise Agreement and all other documents I/we later signed.

4. The earliest date on which I/we signed the Franchise Agreement or any other binding document (not including any Receipt evidencing our receipt of the Franchise Disclosure Document).

5. The earliest date on which I/we delivered cash, a check or other consideration to APF, or any other person or company.

B. Representations and Other Matters:

1. No oral, written, visual or other promises, agreements, commitments, or representations of any type, including, but not limited to, any which expanded upon or were inconsistent with the Franchise Disclosure Document or the Franchise Agreement, have been made to me/us with respect to any matter nor have I/we relied in any way on such, except as expressly set forth in the Franchise Agreement or a written Addendum thereto signed by me/us and the President or CEO of APF, except as follows: _____

(If none, write NONE in your own handwriting.)

2. No oral, written, visual or other claim, guarantee or representation (including, but not limited to, charts, tables, spreadsheets or mathematical calculations to demonstrate actual or possible results based on a combination of variables, such as multiples of price and quantity to reflect gross sales, or otherwise), 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), from franchised or non-franchised units, was made to me/us by any person or entity, nor have I/we relied in any way on any such, except for the information expressly set forth in the Franchise Disclosure Document, if any, except as follows:____

(If none, write NONE in your own handwriting).

3. No contingency, prerequisite, reservation or other condition exists with respect to any matter (including, but not limited to, my/our obtaining any financing, my/our selection, purchase, lease or otherwise of a location, any operational matters or otherwise) or my/our fully performing any of my/our obligations, nor am I/we relying on APF or any other entity to provide or arrange financing of any type, nor have I/we relied in any way on such, except as expressly set forth in the Franchise Agreement or a written Addendum thereto signed by me/us and the President or CEO of APF, except as follows: _____

(If none, write NONE in your own handwriting).

4. I/we understand that the information contained in ITEM 19 of the Franchise Disclosure Document, if any, is not intended to express or infer an estimate, projection or forecast of revenues, sales, expenses, income or earnings to be derived in connection with any particular franchise. I/we understand that APF makes no representation to whether I/we will ever be able to sell any products or services, or the length of time it will take me/us to realize any gross revenues, net income or any other financial results. I/we understand that my/our actual financial results are likely to differ from the figures presented. I/we understand that APF does not represent that I/we can expect to attain the revenues or limit my/our expenses to those contained in ITEM 19 of the Franchise Disclosure Document, if any, or that I/we can do as well as the outlets included therein. If I/we rely on those figures, I/we accept the risk of not doing as well. I/we acknowledge that my/our ability to achieve any level of income will depend upon factors not within APF's control, including the occurrence of certain start-up and operating expenses and the amount of those expenses, and my/our level of expertise.

5. If the prospective franchisee is a business entity, the individuals signing for the "Prospective Franchisee" constitute all of the executive officers, members, managers, partners, shareholders, investors and/or principals (as applicable) of the Prospective Franchisee and each of such individuals has received the Franchise Disclosure Document and all attachments and carefully read, discussed, understands and agrees to the Franchise Agreement and each written attachment, addendum, or exhibit.

6. I/we have had an opportunity to consult with an independent professional advisor, such as an attorney or accountant, prior to signing any binding documents or paying any sums, and APF

has strongly recommended that I/we obtain such independent professional advice. I/we have also been advised by APF to discuss my/our proposed purchase of, or investment in, an Ace Hardware Painting ServicesBusiness with one or more existing Ace Hardware Painting Services Business franchisees prior to signing any binding documents or paying any sums and I/we have been supplied with a list of existing Ace Hardware Painting ServicesBusiness franchisees.

7. I/we understand that entry into any business venture necessarily involves certain risk of loss or failure, that the purchase of an Ace Hardware Painting ServicesBusiness (or any other franchise) is a speculative investment, that investment beyond the amounts outlined in the Franchise Disclosure Document may be required to succeed, that there exists no guaranty against possible loss or failure in this or any other business and that the most important factors in the success of any Ace Hardware Painting ServicesBusiness, including the one to be operated by me/us, are my/our personal business, marketing, sales, management, judgment and other skills.

If there are any matters inconsistent with the statements in this document, or if anyone has suggested that I sign this document without all of its statements being true, correct and complete, I/we will make a written statement regarding such next to my signature below so that APF may address and resolve any such issue(s) at this time and before either party goes forward.

I/we understand and agree to all of the foregoing and represent and warrant that all of the above statements are true, correct and complete.

Date: _____

PROSPECTIVE FRANCHISEE:

By: _____
Print Name: _____

By: _____
Print Name: _____

By: _____
Print Name: _____

All of the above is true, correct and complete to the best of my knowledge.

Franchise Marketing Representative: _____

Reviewed by: _____ (APF)

President/CEO: _____ Franchise Agreement Number: _____

ATTACHMENT D

MULTI-TERRITORY ADDENDUM TO FRANCHISE AGREEMENTS

MULTI-TERRITORY ADDENDUM TO FRANCHISE AGREEMENTS

This Multi-Territory Addendum to Franchise Agreements (the “**Multi-Territory Addendum**”), dated as of the date set forth below, modifies and amends those certain Franchise Agreements (as defined below), each of which has been entered into by and between Ace Painting Franchising, LLC, hereinafter “**APF**,” and the undersigned franchisee, hereinafter “**Franchisee**.” This Multi-Territory Addendum modifies the terms of the Franchise Agreements and in the event of a conflict in terms between the Franchise Agreements and this Multi-Territory Addendum, the terms of this Multi-Territory Addendum shall be controlling.

The parties agree as follows:

1. Background. Franchisee is either contemporaneously with the execution of this Multi-Territory Addendum entering into two or more franchise agreements to acquire and operate multiple Ace Hardware Painting Services Businesses with Territories that are adjacent to each other, or has previously entered into a franchise agreement to acquire an Ace Hardware Painting Services Business and is contemporaneously with the execution of this Multi-Territory Addendum entering into one or more further franchise agreements to operate one or more additional Ace Hardware Painting Services Businesses with Territories adjacent to the Territory under the original franchise agreement. APF and Franchisee agree that the franchise agreements between them that are amended by this Multi-Territory Addendum are as follows (collectively, the “**Franchise Agreements**”):

a. Franchise Agreement dated _____ for the Territory of _____.

b. Franchise Agreement dated _____ for the Territory of _____.

Collectively, the Ace Hardware Painting Services Businesses being operated pursuant to the terms of the Franchise Agreements shall be referred to herein as the “**Franchised Ace Hardware Painting Services Businesses**,” and the Territories designated under all of the Franchise Agreements shall be referred to herein as the “**Franchised Territories**.”

2. Single Franchise Manager. Section 11.1.c of each Franchise Agreement is hereby modified to permit Franchisee to designate a single Franchise Manager for multiple or all of the Franchise Agreements and Franchised Ace Hardware Painting Services Businesses, provided that the Franchise Manager devotes full time and best efforts on a daily basis, in person, to the supervision and conduct of Franchisee’s Franchised Ace Hardware Painting Services Businesses as a whole, which supervision must not be less than 40 hours per week.

3. Single Purpose Entity. Each Franchise Agreement is hereby modified to permit Franchisee to operate all of the Franchised Ace Hardware Painting Services Businesses as a single business entity.

4. Single Business Location. Section 4.1 of each Franchise Agreement is hereby modified to provide that Franchisee may operate all of the Franchised Ace Hardware Painting Services Businesses from a single Business Location centrally located within the Franchised Territories as a whole (rather than requiring a separate Business Location for each Ace Hardware Painting Services Business located in each individual Franchised Territory), subject to the following limitations and conditions:

a. The single selected Business Location must have a Google “pin” that enables the Franchised Ace Hardware Painting Services Businesses to appear with reasonable priority in a Google search performed throughout the entire extent of the Franchised Territories. If the Franchised Ace Hardware Painting Services Businesses do not appear with reasonable priority in Google search results for “painting services” or similar terms throughout the entirety of the Franchised Territories (as determined by APF in its sole discretion), then Franchisee must either (i) acquire one or more additional Business Location(s) (up to a maximum of one Business Location for each Franchise Agreement, each of which must comply with the requirements of the Franchise Agreements) until such desired search results are achieved; and (ii) if agreed to by APF in its discretion, arrange for additional pay-per-click advertising (which expenses shall be the sole responsibility of Franchisee and shall be in addition to the Minimum Individual Marketing Expenditure), on terms acceptable to APF, to allow for appropriate Google search engine optimization throughout the Franchised Territories.

b. In the event that future developments in Google and other online advertising and business listings cause the Franchised Ace Hardware Painting Services Business to not be searchable or to have reduced visibility or presence online throughout the entirety of the Franchised Territories based on the use of a single Business Location, as determined by APF in its discretion, then, unless another arrangement is agreed upon by APF and Franchisee to mitigate such effects, APF may require Franchisee to acquire one or more additional Business Locations (up to a maximum of one Business Location for each Franchise Agreement) meeting the requirements of each of the Franchise Agreements.

5. Software and Internet Fee. Franchisee and APF agree that Franchisee will pay a single Software and Internet Fee at APF’s current rate for each month for all of the Franchise Agreements, rather than paying a Software and Internet Fee for each Franchise Agreement.

6. Minimum Annual Gross Revenues. Franchisee and APF agree that in lieu of the Minimum Annual Gross Revenues to be met as set forth in **Section 12.4** of each of the Franchise Agreements, Franchisee must achieve Gross Revenues combined for all of the Franchised Ace Hardware Painting Services Businesses under all of the Franchise Agreements, in the following amounts:

Period	Aggregate Minimum Annual Gross Revenues
to	\$
to	\$
and thereafter	\$

This table shall be deemed to supersede and replace the table of Minimum Annual Gross Revenues set forth in the addenda to the Franchise Agreements. Franchisee and APF agree that the consequences and rights of APF set forth in the most recent of the Franchise Agreements shall apply for all of the Franchise Agreements and Franchised Territories in the event there is a failure to meet the foregoing Minimum Annual Gross Revenues.

7. **Minimum Individual Marketing.** APF agrees that Franchisee may combine the marketing efforts of the Franchised Ace Hardware Painting Services Businesses, and to enable this, APF will agree to a combined Minimum Individual Marketing Expenditure that covers all of the Franchised Ace Hardware Painting Services Businesses to be used on local marketing in the Franchised Territories together. Therefore, **Section 13.3.a** of each Franchise Agreement is hereby amended to provide that Franchisee shall spend a combined Minimum Individual Marketing Expenditure for the local marketing of all of the Franchised Ace Hardware Painting Services Businesses in the following amounts:

Period	Aggregate Minimum Individual Marketing Expenditure
to _____	\$ _____
to _____	\$ _____
and thereafter	\$ _____

Fully executed this ____ day of _____, 202____.

APF:

ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

FRANCHISEE:

IF AN INDIVIDUAL:

By: _____
Date: _____

Signature

Print Name: _____

IF A PARTNERSHIP, LIMITED LIABILITY
COMPANY, CORPORATION, OR OTHER
ENTITY:

Print Name of Company

By: _____
Signature
Print Name and Title: _____
Date: _____

ATTACHMENT E
RESERVED FOR FUTURE USE

ATTACHMENT F
CURRENT FORM OF GENERAL RELEASE

THE FOLLOWING FORM OF GENERAL RELEASE AGREEMENT IS A SAMPLE OF OUR CURRENT FORM OF GENERAL RELEASE AGREEMENT. THIS AGREEMENT IS OFTEN MODIFIED TO CONFORM TO THE FACTS SURROUNDING THE EVENT OR INCORPORATED INTO A LARGER AGREEMENT WHICH MORE PRECISELY ADDRESSES THE EVENT. WE MAKE NO REPRESENTATION OR GUARANTY THAT THE GENERAL RELEASE AGREEMENT YOU MAY BE REQUIRED TO SIGN WILL BE IDENTICAL TO THE GENERAL RELEASE AGREEMENT SET FORTH BELOW.

GENERAL RELEASE AGREEMENT

THIS GENERAL RELEASE AGREEMENT (this “**Agreement**”) is made as of _____, 202__ by and between ACE PAINTING FRANCHISING, LLC, a Delaware limited liability company (“**APF**”) and _____, a(n) _____ (“**Franchisee**”).

RECITALS

- A. APF and Franchisee entered into that certain Franchise Agreement dated _____, 202__, (the “**Franchise Agreement**”).
- B. Franchisee desires to _____ its rights and obligations under Franchise Agreement.
- C. As a condition to the _____ of Franchisee’s rights and obligations under the Franchise Agreement, APF requires Franchisee to execute this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the terms and conditions set forth below, and other good and valuable consideration, the receipt, adequacy and sufficiency of which are acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Release. Franchisee, for itself, its principals, owners, directors, officers, employees, heirs, assigns, agents and representatives, fully and forever unconditionally releases and discharges APF, its parents and affiliates, and their respective shareholders, directors, officers, employees, successors, assigns, agents and representatives (collectively referred to as “**APF Affiliates**”) from any and all claims, demands, obligations, actions, liabilities and damages of every kind and nature whatsoever, in law or in equity, whether known or unknown to it, which it may now have against APF or the APF Affiliates or which it may discover hereafter, in connection with, as a result of, or in any way arising from, any relationship or transaction with APF or the APF Affiliates, however characterized or described, from the beginning of time until the date of this Agreement.

2. Notice. Any notice, request, demand, statement or consent made under this Agreement shall be in writing and shall be personally delivered or sent by registered or certified mail, return receipt requested, and shall be deemed given when personally delivered or three days after deposit in the United States Mail, postage prepaid, and properly addressed to the other party at its address as set forth below. Each party may designate a change of address by notice to the other party in accordance with this Section.

If to Franchisee:

If to APF:

Ace Painting Franchising, LLC
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
Attention: Cameron Loughlin, President

With a copy to (before January 1, 2024):

Ace Painting Franchising, LLC
2200 Kensington Court
Oak Brook, Illinois 60523
Attn: Legal Department

With a copy to (on or after January 1, 2024):

Ace Painting Franchising, LLC
2915 Jorie Blvd.
Oak Brook, Illinois 60523
Attn: Legal Department

3. Colorado Laws. This Agreement shall be interpreted by the laws of the State of Colorado. Should any provision of this Agreement be found to violate the statutes or court decisions of the State of Colorado or of the United States, that provision shall be deemed to be amended to comply with and conform to such statutes or court decisions to affect the intent of the parties hereto.

4. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the successors, assigns, trustees, receivers, personal representatives, legatees and devisees of the parties.

5. Attorneys' Fees. Each party shall be responsible for paying its and his or her own costs and expenses incurred in the preparation of this Agreement. However, in the event of any litigation between the parties based upon an alleged breach or default in their respective obligations to be fulfilled pursuant to this Agreement, the prevailing party in the action shall be entitled to recover attorney's fees and court costs from the non-prevailing party(ies).

6. Entirety. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings related to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

APF:

FRANCHISEE:

ACE PAINTING FRANCHISING, LLC

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

ATTACHMENT G
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- STYLE GUIDE

ATTACHMENT H

LIST OF FRANCHISEES

LIST OF FRANCHISEES
As of October 28, 2022

NONE

ATTACHMENT I

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM

Listed below is the name and last known city, state and telephone number of every Ace Hardware Painting Services Business Franchisee who has had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under their respective Franchise Agreement, including transfers, during the most recently completed fiscal year, or who has not communicated with us within 10 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.

NONE

ATTACHMENT J

FINANCIAL STATEMENTS

ACE HARDWARE CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

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Report of Independent Auditors

The Board of Directors
Ace Hardware Corporation

Opinion

We have audited the consolidated financial statements of Ace Hardware Corporation (the Company), which comprise the consolidated balance sheets as of January 1, 2022 and January 2, 2021, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three fiscal years in the period ended January 1, 2022, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 1, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

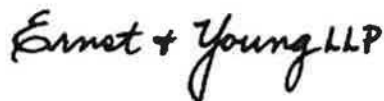
Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chicago, Illinois
February 15, 2022

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	January 1, 2022	January 2, 2021
Assets		
Cash and cash equivalents	\$ 37.6	\$ 28.9
Marketable securities	58.0	63.2
Receivables, net of allowance for doubtful accounts of \$4.3 and \$4.8, respectively	533.6	527.7
Inventories	1,224.3	1,133.0
Prepaid expenses and other current assets	63.9	55.1
Total current assets	1,917.4	1,807.9
Property and equipment, net	453.4	423.3
Operating lease right-of-use assets, net	497.3	455.5
Finance lease right-of-use assets, net	68.1	25.0
Goodwill and other intangible assets	99.5	100.3
Other assets	105.7	90.9
Total assets	\$ 3,141.4	\$ 2,902.9
Liabilities and Equity		
Current maturities of long-term debt	\$ 17.1	\$ 31.7
Accounts payable	1,095.2	1,109.4
Patronage distributions payable in cash	120.6	112.9
Patronage refund certificates payable	27.2	26.6
Current operating lease liabilities	64.3	64.5
Current finance lease liabilities	10.9	3.7
Accrued expenses	282.9	237.5
Total current liabilities	1,618.2	1,586.3
Long-term debt	18.6	24.8
Patronage refund certificates payable	92.8	95.3
Long-term operating lease liabilities	456.3	412.2
Long-term finance lease liabilities	56.4	20.8
Other long-term liabilities	91.0	73.6
Total liabilities	2,333.3	2,213.0
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,681 and 2,689 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized 5,838,265 and 5,015,306 issued and outstanding, respectively	583.8	501.5
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 1,209,075 and 1,191,050 shares issuable, respectively	120.9	119.1
Contributed capital	19.1	19.0
Retained earnings	68.9	32.3
Accumulated other comprehensive income	1.0	3.0
Equity attributable to Ace member Retailers	796.4	677.6
Equity attributable to noncontrolling interests	11.7	12.3
Total equity	808.1	689.9
Total liabilities and equity	\$ 3,141.4	\$ 2,902.9

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions)

	Years Ended		
	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)
Revenues:			
Wholesale revenues	\$ 7,782.2	\$ 7,011.2	\$ 5,564.5
Retail revenues	812.0	751.5	506.7
Total revenues	8,594.2	7,762.7	6,071.2
Cost of revenues:			
Wholesale cost of revenues	6,849.6	6,132.1	4,898.6
Retail cost of revenues	450.2	417.1	280.0
Total cost of revenues	7,299.8	6,549.2	5,178.6
Gross profit:			
Wholesale gross profit	932.6	879.1	665.9
Retail gross profit	361.8	334.4	226.7
Total gross profit	1,294.4	1,213.5	892.6
Wholesale operating expenses:			
Distribution operations expenses	247.3	220.9	178.2
Selling, general and administrative expenses	222.5	210.8	195.1
Retailer success and development expenses	213.0	194.3	166.8
Retail operating expenses	269.9	253.1	201.5
Retail pre-opening expenses	2.9	1.3	8.7
Goodwill impairment charge	-	-	8.5
Total operating expenses	955.6	880.4	758.8
Operating income	338.8	333.1	133.8
Interest expense	(14.4)	(19.1)	(22.7)
Interest income	6.8	3.6	6.9
Other income, net	13.8	4.3	10.8
Income tax (expense) benefit	(15.0)	(5.0)	11.6
Net income	330.0	316.9	140.4
Less Net loss attributable to noncontrolling interests	(0.7)	(0.7)	-
Net income attributable to Ace Hardware Corporation	\$ 330.7	\$ 317.6	\$ 140.4
Patronage distributions accrued	\$ 314.4	\$ 292.9	\$ 182.2
Patronage distributions accrued for third party Retailers	\$ 294.1	\$ 275.4	\$ 172.5

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended		
	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)
Net income	\$ 330.0	\$ 316.9	\$ 140.4
Other comprehensive (loss) income, net of tax:			
Foreign currency translation	(0.1)	-	-
Unrealized (loss) gain on investments	(1.9)	1.9	1.5
Unrealized gain (loss) on derivative financial instrument	-	0.2	(0.8)
Total other comprehensive (loss) income, net	(2.0)	2.1	0.7
Comprehensive income	328.0	319.0	141.1
Less Comprehensive loss attributable to noncontrolling interests	(0.7)	(0.7)	-
Comprehensive income attributable to Ace Hardware Corporation	\$ 328.7	\$ 319.7	\$ 141.1

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(In millions)

	Shareholders of Ace Hardware Corporation									
	Capital Stock		Class C Stock Issuable to Retailers for Patronage Dividends	Additional Stock Subscribed	Contributed Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity	
	Class A	Class C								
Balances at December 29, 2018	\$ 2.7	\$ 464.8	\$ 44.0	\$ -	\$ 18.5	\$ 24.8	\$ (1.2)	\$ 14.2	\$ 567.8	
Net income	-	-	-	-	-	140.4	-	-	140.4	
Other comprehensive income	-	-	-	-	-	-	0.7	-	0.7	
Net payments on subscriptions	-	-	-	1.1	-	-	-	-	1.1	
Stock issued	0.1	43.8	(44.0)	(1.1)	-	-	-	-	(1.2)	
Change in noncontrolling interests	-	-	-	-	(0.2)	-	-	0.6	0.4	
Stock repurchased	(0.1)	(25.9)	-	-	-	-	-	-	(26.0)	
Patronage distributions issuable	-	-	54.6	-	-	-	-	-	54.6	
Patronage distributions payable	-	-	-	-	-	(172.5)	-	-	(172.5)	
Adoption of accounting standard	-	-	-	-	-	(1.4)	1.4	-	-	
Other	-	-	-	-	0.5	-	-	-	0.5	
Balances at December 28, 2019	\$ 2.7	\$ 482.7	\$ 54.6	\$ -	\$ 18.8	\$ (8.7)	\$ 0.9	\$ 14.8	\$ 565.8	
Net income (loss)	-	-	-	-	-	317.6	-	(0.7)	316.9	
Other comprehensive income	-	-	-	-	-	-	2.1	-	2.1	
Net payments on subscriptions	-	-	-	1.1	-	-	-	-	1.1	
Stock issued	0.1	54.3	(54.6)	(1.1)	-	(0.1)	-	-	(1.4)	
Change in noncontrolling interests	-	-	-	-	-	-	-	(0.3)	(0.3)	
Stock repurchased	(0.1)	(35.5)	-	-	-	-	-	-	(35.6)	
Patronage distributions issuable	-	-	119.1	-	-	-	-	-	119.1	
Patronage distributions payable	-	-	-	-	-	(275.4)	-	-	(275.4)	
Other	-	-	-	-	0.2	(1.1)	-	(1.5)	(2.4)	
Balances at January 2, 2021	\$ 2.7	\$ 501.5	\$ 119.1	\$ -	\$ 19.0	\$ 32.3	\$ 3.0	\$ 12.3	\$ 689.9	
Net income (loss)	-	-	-	-	-	330.7	-	(0.7)	330.0	
Other comprehensive loss	-	-	-	-	-	-	(2.0)	-	(2.0)	
Net payments on subscriptions	-	-	-	1.4	-	-	-	-	1.4	
Stock issued	0.1	117.5	(119.1)	(1.4)	-	(0.1)	-	-	(3.0)	
Change in noncontrolling interests	-	-	-	-	(0.1)	-	-	0.2	0.1	
Stock repurchased	(0.1)	(35.2)	-	-	-	-	-	-	(35.3)	
Patronage distributions issuable	-	-	120.9	-	-	-	-	-	120.9	
Patronage distributions payable	-	-	-	-	-	(294.1)	-	-	(294.1)	
Other	-	-	-	-	0.2	0.1	-	(0.1)	0.2	
Balances at January 1, 2022	\$ 2.7	\$ 583.8	\$ 120.9	\$ -	\$ 19.1	\$ 68.9	\$ 1.0	\$ 11.7	\$ 808.1	

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended		
	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)
Operating Activities			
Net income	\$ 330.0	\$ 316.9	\$ 140.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	71.3	64.9	60.1
Goodwill impairment charge	-	-	8.5
Amortization of deferred financing costs	0.5	0.4	0.4
(Gain) loss on disposal of assets, net	(10.3)	0.9	(5.5)
Credit for doubtful accounts	(0.4)	(0.2)	(0.9)
Other, net	8.8	2.5	0.8
Changes in operating assets and liabilities, exclusive of effect of acquisitions:			
Receivables	(31.6)	(73.2)	(69.7)
Inventories	(89.7)	(194.6)	30.0
Other current assets	(8.7)	(9.6)	4.2
Other long-term assets	7.3	9.5	(9.8)
Accounts payable and accrued expenses	28.1	337.3	56.2
Other long-term liabilities	17.4	3.9	12.9
Deferred taxes	(4.8)	2.5	(13.6)
Net cash provided by operating activities	<u>317.9</u>	<u>461.2</u>	<u>214.0</u>
Investing Activities			
Purchases of marketable securities	(40.4)	(22.2)	(46.5)
Proceeds from sale of marketable securities	27.1	20.8	41.4
Purchases of property and equipment	(107.7)	(99.0)	(76.5)
Cash paid for acquired businesses, net of cash acquired	(2.8)	(21.5)	(22.5)
Proceeds from sale of assets	12.8	0.2	22.0
Other, net	(16.2)	(7.1)	(9.8)
Net cash used in investing activities	<u>(127.2)</u>	<u>(128.8)</u>	<u>(91.9)</u>
Financing Activities			
Net payments under revolving lines of credit	(23.1)	(224.9)	(58.0)
Principal payments on long-term debt	(13.4)	(10.7)	(10.9)
Payments of debt issuance costs	(0.3)	-	(1.3)
Payments of cash portion of patronage distribution	(113.8)	(66.2)	(51.3)
Payments of patronage refund certificates	(17.1)	(9.7)	(5.3)
Repurchase of stock	(5.8)	(4.8)	(3.8)
Purchase of noncontrolling interests	(0.4)	(3.0)	(0.2)
Other, net	(8.1)	(2.4)	1.3
Net cash used in financing activities	<u>(182.0)</u>	<u>(321.7)</u>	<u>(129.5)</u>
Increase (decrease) in cash and cash equivalents	8.7	10.7	(7.4)
Cash and cash equivalents at beginning of period	28.9	18.2	25.6
Cash and cash equivalents at end of period	<u>\$ 37.6</u>	<u>\$ 28.9</u>	<u>\$ 18.2</u>
Supplemental disclosure of cash flow information:			
Interest paid	\$ 11.5	\$ 16.6	\$ 20.2
Income taxes paid	<u>\$ 30.4</u>	<u>\$ 12.4</u>	<u>\$ 1.4</u>

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In millions)

(1) Summary of Significant Accounting Policies

The Company and Its Business

Ace Hardware Corporation (“the Company”) is a wholesaler of hardware, paint and other related products. The Company also provides to its retail members (“Retailers”) value-added services such as advertising, marketing, merchandising and store location and design services. The Company’s goods and services are sold predominately within the United States, primarily to retailers that operate hardware stores and with whom the Company has a retail membership agreement. As a retailer-owned cooperative, the Company distributes substantially all of its patronage sourced income in the form of patronage distributions to Retailers based on their volume of merchandise purchases.

Ace Hardware International Holdings, Ltd. (“AIH”), is a majority-owned and controlled subsidiary of the Company with a 21.0 percent noncontrolling interest held by AIH customers. AIH shareholders do not own shares of stock in the Company nor receive patronage dividends.

Ace Retail Holdings LLC (“ARH”) is the owner of the 151 store Westlake Ace Hardware (“Westlake”) and the 59 store Great Lakes Ace Hardware, Inc. (“GLA”) retail chains. As a result, the Company is also a retailer of hardware, paint and other related products.

Ace Wholesale Holdings LLC (“AWH”) owns and operates Emery Jensen Distribution. AWH was formed so that the Company could begin making wholesale hardware sales to non-member retailers.

Ace Ecommerce Holdings LLC (“AEH”) owns The Grommet, an e-commerce company that operates a website that markets and sells new and innovative products created by independent entrepreneurs.

Ace Services Holdings LLC (“ASH”) owns Ace Handyman Services, a franchisor of home improvement, maintenance and repair services. In the fourth quarter of 2021, ASH began operations of Ace Senior Services, which provides basic home maintenance and essential tasks for seniors. On December 22, 2021, ASH acquired the assets of Mountain Skyline Painting LLC, a provider of home painting services.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The Company’s fiscal year ends on the Saturday nearest December 31. Accordingly, fiscal years 2021, 2020 and 2019 ended on January 1, 2022, January 2, 2021 and December 28, 2019, respectively. Unless otherwise noted, all references herein for the years 2021, 2020 and 2019 represent fiscal years ended January 1, 2022, January 2, 2021 and December 28, 2019, respectively. Fiscal year 2021 consists of 52 weeks, fiscal year 2020 consisted of 53 weeks, and fiscal year 2019 consisted of 52 weeks.

Subsequent events have been evaluated through February 15, 2022, the date these statements were issued.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Marketable Securities

In the normal course of business, the Company has outstanding checks that exceed the cash balances in the Company’s bank accounts, which create a book overdraft that are recorded as a liability. As of January 1, 2022 and January 2, 2021, the Company had outstanding checks in excess of bank balances totaling \$47.3 million and \$92.4 million, respectively, which have been included in accounts payable in the accompanying consolidated balance sheets. These outstanding amounts were subsequently funded through cash receipts and borrowings under the Company’s debt facilities during the following fiscal year.

The Company classifies all highly liquid investments with original maturities of three months or less as cash equivalents.

The Company determines the appropriate classification of its investments in marketable securities, which are predominately held by the Company’s New Age Insurance, Ltd. (“NAIL”) subsidiary, at the time of purchase and evaluates such designation at each balance sheet date. All marketable securities have been classified and accounted for as available for sale. The Company may hold debt

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

securities until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, securities are occasionally sold prior to their stated maturities. Debt securities with maturities beyond twelve months are viewed by the Company as available to support current operations and are therefore classified as current assets in the accompanying Consolidated Balance Sheets. Marketable securities are carried at fair value based on quoted market prices, with unrealized gains and losses, net of taxes, reported as a component of Accumulated other comprehensive income ("AOCI"). Realized gains and losses on securities are determined using the specific identification method.

In the normal course of NAIL's operations, standby letters of credit totaling \$15.8 million and \$14.3 million at January 1, 2022 and January 2, 2021, respectively, were issued in favor of the insurance companies that reinsure a portion of NAIL's loss exposure. At January 1, 2022, NAIL has pledged substantially all of its cash and cash equivalents and marketable securities as collateral for these letters of credit. In fiscal 2019, the Company created a multiemployer welfare association (MEWA) to offer medical insurance and other welfare benefits to employees of the Company and Retailers and their employees at participating Ace retail locations, beginning January 1, 2020. NAIL has provided a \$15.0 million standby letter of credit to the State of Vermont in connection with the MEWA. See Note 12 for more information.

Revenue Recognition

Revenue is recognized when performance obligations under the terms of contracts with our customers are satisfied; generally, this occurs with the transfer of control of merchandise or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The Company excludes sales and usage-based taxes collected and recognizes revenues net of expected returns. Provisions for sales returns are provided at the time the related sales are recorded based on historic returns activity.

The Company's warehouse merchandise revenue originates with a single performance obligation to ship the products, and therefore the Company's performance obligations are satisfied when control of the products is transferred to the customer per the arranged shipping terms. The customer takes ownership and assumes risk of loss for warehouse merchandise upon delivery. Although products are generally shipped FOB shipping point, the Company effectively retains the responsibilities of ownership until the goods reach the customer. The Company considers shipping and handling as activities to fulfill its performance obligation for warehouse merchandise revenues. Billings for freight are accounted for as Revenues and shipping and handling costs are accounted for in Cost of revenues.

The Company has direct shipment arrangements with various vendors to deliver products to its customers without having to physically hold the inventory at the Company's warehouses, thereby increasing efficiency and reducing costs. The Company recognizes revenue for direct shipment arrangements upon delivery to the customer with contract terms that typically specify FOB destination. The Company recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the customers, and assumes all the credit risk for the vendors with the customers. Therefore, the Company concluded it is the principal for these transactions.

Retail revenues from retail locations owned and operated by the Company and e-commerce revenues are recognized when the customer takes ownership of the products sold and assumes the risk of loss. The customer takes ownership and assumes risk of loss generally at the point of sale in our owned retail locations. The Company's e-commerce revenues come from Ace Hardware's website and sales from AEH. For e-commerce transactions, customers choose whether to have merchandise delivered to them (using third-party parcel delivery companies) or to collect their merchandise from one of our stores ("in-store pick up"). For items delivered directly to the customer, control passes and revenue is recognized when delivery has been completed to the customer, as title has passed and we have transferred possession to the customer. For in-store pick up, control passes and revenue is recognized once the customer has taken possession of the merchandise. Any fees charged to customers for delivery are a component of the transaction price and are recognized when delivery has been completed. Payment terms for retail and e-commerce sales are at the point of sale.

Service revenues (advertising activities, brand building initiatives and fees for other services provided primarily to domestic Retailers) are recognized when the service is complete as this is when the Retailer has the ability to direct the use of and obtain the benefits from the service.

The Company offers its Retailers various incentive programs which provide the Retailers with certain sales allowances. The Company offers these incentive programs in anticipation of future sales to the Retailers that participate in these programs. Since the sales allowances provide future economic benefit to the Company, they are capitalized in Other assets and amortized as a reduction of revenue on a straight-line basis over the period of expected future sales to these Retailers, which is generally five years.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

The following table provides a summary of revenues by sales category:

	Years Ended	
	January 1, 2022	January 2, 2021
Warehouse merchandise	\$ 5,833.6	\$ 5,175.2
Direct shipment merchandise	1,413.4	1,337.7
ARH revenues	776.7	704.4
E-commerce	307.8	303.8
Service revenues	290.9	267.6
Amortization of sales allowances under retailer incentive programs	(28.2)	(26.0)
Total revenues	\$ 8,594.2	\$ 7,762.7

Receivables

Receivables from customers include amounts invoiced for the sale of merchandise, services and equipment used in the operation of customers' businesses.

Notes Receivable

The Company makes available to its Retailers various lending programs whose terms exceed one year. The notes bear interest at various rates based on market rates, the loan program or the Retailer's credit quality and are recorded at face value. Interest is recognized over the life of the note on the effective interest method. Loan origination fees were not material for any period presented.

Allowance for Doubtful Accounts

Management records an allowance for doubtful accounts based on judgments considering a number of factors, primarily historical collection statistics, current customer credit information, the current economic environment, the aging of receivables, the evaluation of compliance with lending covenants and the offsetting amounts due to Retailers for stock, notes, interest and anticipated but unpaid patronage distributions. The Company considers accounts and notes receivable past due if invoices remain unpaid past their due date and provides for the write-off of uncollectible receivables after exhausting all commercially reasonable collection efforts.

Inventories

Wholesale inventories are valued at the lower of cost or net realizable value. Cost is determined primarily using the last-in, first-out ("LIFO") method for all inventories.

Inventories at retail locations operated by ARH and at AEH's warehouse locations are valued at the lower of cost or net realizable value. Inventory cost is determined using the moving average method, which approximates the first-in, first-out ("FIFO") method.

Vendor Funds

The Company receives funds from vendors in the normal course of business principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Based on the provisions of the vendor agreements in place, management develops accrual rates by estimating the point at which the Company will have completed its performance under the agreement and the amount agreed upon will be earned. Amounts accrued throughout the year can be impacted if actual purchase volumes differ from projected annual purchase volumes. At year-end, the accrual reflects actual purchases made throughout the year.

Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by the Company to sell the vendor's product, in which case the costs are netted. The majority of the vendor funds that the Company receives do not meet the specific, incremental and identifiable criteria. Therefore, the Company treats a majority of these funds as a reduction in the cost of inventory as the amounts are accrued and recognizes these funds as a reduction of cost of revenues when the inventory is sold.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Expenditures for maintenance, repairs and renewals of relatively minor items are generally charged to expense. Significant improvements or renewals are capitalized.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

Depreciation expense is computed on the straight-line method based on estimated useful lives as follows:

Buildings and improvements	6 – 40 years
Equipment	3 - 20 years

Leasehold improvements are generally amortized on a straight-line basis over the lesser of the lease term or the estimated useful life of the asset.

The Company evaluates long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquired business over the fair value of the net tangible assets acquired and identified intangible assets. Goodwill is not amortized but is tested for impairment at a reporting unit level on an annual basis or more frequently, if circumstances change or an event occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Company's other intangible assets primarily relate to trademarks, tradenames, customer and vendor relationships and developed technology. The intangibles are amortized over their estimated useful lives.

See Note 8 for additional information.

Internal-Use Software

Included in fixed assets is the capitalized cost of internal-use software. The Company capitalizes costs incurred during the application development stage of internal-use software and amortizes these costs over its estimated useful life. Costs incurred related to design or maintenance of internal-use software are expensed as incurred. For fiscal year 2021, 2020 and 2019, the Company capitalized \$14.8 million, \$10.4 million and \$10.8 million, respectively, of software development costs related to internal programming time. Amortization of these capitalized costs was \$7.7 million, \$5.2 million and \$4.1 million for fiscal 2021, 2020 and 2019, respectively. As of January 1, 2022 and January 2, 2021, the Company had \$5.4 million and \$4.4 million, respectively, of capitalized costs for internal-use software that had not been placed into service.

Leases

At the commencement date of a lease, the Company recognizes a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lease liability is measured at the present value of lease payments over the lease term, including variable fees that are known or subject to a minimum floor. The Company generally does not include options to extend or terminate leases unless it is reasonably certain that the option will be exercised. The Company has lease agreements that contain both lease and non-lease components. The Company elected to not separate non-lease components from lease components for all categories. The Company utilizes the practical expedient to use a risk-free discount rate at commencement date based upon the lease term in determining the recognition of the operating and finance lease assets and liabilities. The initial valuation of the right-of-use ("ROU") asset includes the initial measurement of the lease liability, lease payments made in advance of the lease commencement date and initial direct costs incurred by the Company and excludes lease incentives.

Real estate operating leases also typically require payment of real estate taxes, common area maintenance and insurance. These components comprise the majority of variable lease costs and are excluded from the present value of lease obligations. Operating lease assets also include prepaid or accrued lease payments and are reduced by lease incentives.

Certain retail lease agreements also provide for contingent rentals based on sales performance in excess of specified minimums or on changes in the consumer price indexes. Contingent rentals, which are based upon future performance or changes in indices, are excluded from the determination of lease payments and were not material.

Leases with an initial term of 12 months or less are classified as short-term leases and are not recorded on the consolidated balance sheets. The lease expense for short-term leases is recognized on a straight-line basis over the lease term.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

Advertising Expense

The Company expenses advertising costs when incurred. Gross advertising expenses amounted to \$264.9 million, \$240.7 million, and \$209.2 million in fiscal 2021, 2020 and 2019, respectively.

Gift Cards

The Company sells gift cards to customers through its Retailers, the Company website and select third parties. The gift cards do not expire. A liability is initially established for the value of the gift card when sold. Gift card breakage income is recognized proportionately as redemption occurs at the approximate monthly redemption rate and represents the balance of gift cards for which the Company believes the likelihood of redemption by the customer is remote. The breakage income calculation takes into account any legal obligation to remit the unredeemed portion to relevant jurisdictions. During fiscal years 2021, 2020 and 2019, the Company recognized gift card breakage income of \$1.5 million, \$3.4 million and \$1.1 million, respectively. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions that we use to record breakage.

Retirement Plans

The Company sponsors health benefit plans for its retired officers and a limited number of retired non-officer employees. The Company and its subsidiaries also sponsor defined contribution plans for substantially all employees. The Company's contributions under these plans are determined annually by the Board of Directors and charged to expense in the period in which it is earned by employees.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this approach, deferred taxes are recognized for the future tax consequences of differences between the financial statement and income tax bases of existing assets and liabilities, and measured based upon enacted tax laws and rates.

Self-Insurance

NAIL, the Company's wholly-owned subsidiary, operates as a captive insurance company. NAIL provides the reinsurance of property and casualty insurance policies for some Retailers and is the direct insurer for certain property and casualty insurance policies of the Company. These insurance programs are subject to varying retention levels of self-insurance. Such self-insurance relates to losses and liabilities primarily associated with property, general liability, workers' compensation and auto liability insurance programs. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions based on Company experience and insurance industry metrics.

Concentration of Credit Risk

Credit risk pertains primarily to the Company's trade and notes receivables. The Company extends credit to its customers as part of its day-to-day operations. Management believes that as no specific receivable or group of receivables comprises a significant percentage of total trade accounts, its concentration of credit risk with respect to trade receivables is limited. Additionally, management believes that its allowance for doubtful accounts is adequate with respect to overall customer credit risks. Also, the Company's certificate of incorporation and by-laws specifically provide that the Company may set-off its obligation to make any payment to a Retailer for such Retailer's stock, notes, interest and declared and unpaid distributions against any obligation owed by the Retailer to the Company. The Company, but not the Retailer, may at its sole discretion exercise these set-off rights when any such funds become due to former Retailers with outstanding accounts and notes receivable owed to the Company and current Retailers with past due receivables owed to the Company.

Impact of New Accounting Standards

Recently issued accounting pronouncements that are not yet effective and that were not discussed below are either inapplicable to the Company or, if applicable, the Company does not expect that they will have a material impact on consolidated results of operations, consolidated financial condition, or consolidated cash flows.

New Accounting Pronouncements - Issued

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities". Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. The guidance also requires a lessee to use the rate implicit in the lease if the rate is readily determinable, regardless

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

of whether the lessee has elected the risk-free rate expedient. ASU 2021-09 is effective for the Company for year-end financial statements in fiscal 2022. The Company is evaluating the impact that ASU 2021-09 will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" along with amendments issued in 2018. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The amortized cost basis of financial assets should be reduced by expected credit losses to present the net carrying value in the financial statements at the amount expected to be collected. The measurement of expected credit losses is based on past events, historical experience, current conditions and forecasts that affect the collectability of the financial assets. Additionally, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 is effective for the Company for year-end financial statements and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that ASU 2016-13 will have on the Company's consolidated financial statements.

(2) Acquisitions

During the year ended January 1, 2022, ARH acquired additional retail stores and ASH acquired a provider of home painting services for consideration of \$2.8 million, prior to working capital adjustments. These acquisitions resulted in recording \$1.0 million of goodwill. Goodwill has an indefinite life and, therefore, is not amortized. The goodwill is expected to be deductible for tax purposes.

(3) Receivables, net

Receivables, net include the following amounts:

	January 1, 2022	January 2, 2021
Trade	\$ 394.8	\$ 395.6
Other	126.4	120.4
Notes receivable – current portion	16.7	16.5
Less allowance for doubtful accounts	(4.3)	(4.8)
Receivables, net	<u>\$ 533.6</u>	<u>\$ 527.7</u>

Other receivables are principally amounts due from suppliers for promotional and advertising allowances.

(4) Inventories

Inventories consist of wholesale merchandise inventories held for sale to customers and retail merchandise inventory held for resale at ARH retail locations and at AEH's warehouse locations. Substantially all of the Company's wholesale inventories are valued on the LIFO method. The excess of replacement cost over the LIFO value of inventory was \$172.5 million and \$109.1 million at January 1, 2022 and January 2, 2021, respectively. Inventories at retail locations operated by ARH and at AEH's warehouses are valued at the lower of cost or net realizable value. Inventory cost is determined using the moving average method, which approximates the FIFO method. The Company regularly reviews its inventory and establishes a reserve for excess and obsolete inventory based on a number of factors, including historical sales, sales forecasts, obsolescence due to technology changes and defective goods.

Inventories consisted of:

	January 1, 2022	January 2, 2021
Wholesale merchandise inventory (LIFO)	\$ 1,031.4	\$ 973.6
Retail merchandise inventory at ARH stores and AEH warehouses (FIFO)	192.9	159.4
Inventories	<u>\$ 1,224.3</u>	<u>\$ 1,133.0</u>

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

(5) Property and Equipment, net

Property and equipment, net is summarized as follows:

	January 1, 2022	January 2, 2021
Land	\$ 13.9	\$ 14.7
Buildings and improvements	292.6	297.9
Warehouse equipment	253.1	226.7
Computer hardware and software and other office equipment	412.5	371.2
Transportation equipment	42.4	41.5
Leasehold improvements	70.4	63.1
Assets under construction	21.6	19.6
Property and equipment, gross	1,106.5	1,034.7
Accumulated depreciation and amortization	(653.1)	(611.4)
Property and equipment, net	\$ 453.4	\$ 423.3

Depreciation and amortization expense related to property and equipment for fiscal years 2021, 2020 and 2019 was \$69.3 million, \$60.9 million and \$55.1 million, respectively.

In December 2021, the Company sold the Tampa Retail Support Center (“RSC”) for \$12.7 million and recorded a gain of \$10.2 million. The Company classified the gain as Other income, net in the Consolidated Statements of Income.

(6) Leases

The Company leases certain warehouse and distribution space, office space, retail locations, equipment and vehicles under finance and operating leases.

The components of total lease expense for the twelve months ended January 1, 2022 and January 2, 2021, were as follows:

		Years Ended	
	<u>Income Statement Classification</u>	January 1, 2022	January 2, 2021
Finance lease amortization	Cost of revenues	\$ 8.7	\$ 2.9
Finance lease interest	Interest expense	0.4	0.1
Operating lease cost, net of sublease income	Cost of revenues, operating expenses	96.7	93.4
Short-term lease cost	Cost of revenues, operating expenses	9.0	6.6
Variable lease cost	Cost of revenues, operating expenses	22.1	20.4
Net lease cost		\$ 136.9	\$ 123.4

The future minimum undiscounted lease payments under operating and finance leases at January 1, 2022 are as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2022	\$ 85.0	\$ 13.7
2023	79.9	13.5
2024	73.1	13.5
2025	63.0	13.3
2026	51.1	10.2
Thereafter	205.3	4.8
Total future undiscounted lease payments	557.4	69.0
Less imputed interest	(36.8)	(1.7)
Total reported lease liability	520.6	67.3
Less current portion	(64.3)	(10.9)
Long-term lease liabilities	\$ 456.3	\$ 56.4

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

Additionally, the Company has excluded approximately \$175.9 million of payments (undiscounted basis) for leases that have not yet commenced. These leases will commence in 2022 with lease terms of up to fifteen years and will include a lease in Jefferson, Georgia for the replacement of the Gainesville RSC which the Company owns, a leaseback of the Gainesville RSC, and a lease for a new RSC location in Visalia, California to expand our distribution network.

Other information related to operating and finance leases was as follows:

	January 1, 2022	January 2, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (88.5)	\$ (93.8)
Operating cash flows from finance leases	\$ (9.7)	\$ (3.5)
Lease assets obtained in exchange for new lease liabilities:		
Operating leases	\$ 126.4	\$ 85.8
Finance leases	\$ 51.9	\$ 27.9
Weighted average remaining lease term for operating leases	8.4 years	8.0 years
Weighted average discount rate for operating leases	1.53%	1.53%
Weighted average remaining lease term for finance leases	5.3 years	5.5 years
Weighted average discount rate for finance leases	0.94%	0.65%

(7) Notes Receivable, net

The Company makes available to its Retailers various lending programs whose terms exceed one year. At January 1, 2022 and January 2, 2021, the outstanding balance of the notes was \$17.8 million and \$18.9 million, respectively, of which the current portion of \$16.7 million and \$16.5 million, respectively, was recorded in Receivables, net and the long-term portion of \$0.1 million and \$1.1 million, respectively, was recorded in Other assets.

	January 1, 2022	January 2, 2021
Notes receivable, gross	\$ 44.0	\$ 45.4
Less estimated patronage applications from 2021 and 2020, respectively	(26.2)	(26.5)
Net	17.8	18.9
Less current portion	(16.7)	(16.5)
Less allowance for doubtful accounts	(1.0)	(1.3)
Notes receivable, net	\$ 0.1	\$ 1.1

For substantially all of the Company's Notes receivable, the amounts due are generally expected to be collected through the non-cash portion of the annual patronage distribution. In the event a Retailer cancels its membership with the Company, any outstanding loans are transferred from Notes receivable to Accounts receivable and are due immediately. As the non-cash portion of the patronage distribution is used to settle the Notes receivable, there are no loans that are currently past due. The patronage distribution for each Retailer can vary from year to year based on the Company's financial performance as well as the volume of patronage-based merchandise that each Retailer purchases from the Company. The contractual maturities, assuming no patronage deductions, of the Notes receivable are as follows:

	January 1, 2022
0 – 4 years	\$ 10.1
5 – 8 years	20.5
9 – 10 years	13.4
Total	\$ 44.0

Pursuant to the Company's Amended and Restated Certificate of Incorporation and the Company's by-laws, notes receivable (like all obligations owed to the Company by the Company's Retailers) are secured by the Company stock owned by the Retailers. However, for some Retailers, the redemption value of their stock does not fully cover their obligations.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

The Company evaluates risk on its loan portfolio by categorizing each loan into an internal risk category. The Company's risk categories include:

Low – The Retailer possesses a strong financial position, above average payment record to both Ace and other vendors, and the business is well established.

Medium – The Retailer possesses an average financial position, an average payment record to both Ace and other vendors, and the business is somewhat established.

High – The Retailer possesses a weak financial position, a substandard payment record to Ace or other vendors, or the business is somewhat new.

Based upon these criteria, the Company has classified its loan portfolio as follows:

	January 1, 2022	January 2, 2021
Corporate Credit Exposure:		
Low risk	\$ 17.4	\$ 22.3
Moderate risk	14.7	14.8
High risk	11.9	8.3
Total	\$ 44.0	\$ 45.4

The Company applies a consistent practice of establishing an allowance for notes that it feels may become uncollectible by monitoring the financial strength of its Retailers. The collectability of certain notes is evaluated on an individual basis while the remaining notes are evaluated on a collective basis. Due to the nature of the notes and the collateral held by the Company, virtually all outstanding notes were collectively evaluated for impairment.

The Company has evaluated the collectability of the notes and has established an allowance for doubtful accounts of \$1.0 million and \$1.3 million at January 1, 2022 and January 2, 2021, respectively. Management records the allowance for doubtful accounts based on the above information as well as judgments made considering a number of factors, primarily historical collection statistics, current Retailer credit information, the current economic environment and the offsetting amounts due to Retailers for stock, notes, interest and declared and unpaid patronage distributions. The components of changes to the Notes receivable allowance for doubtful accounts for 2021 and 2020 were as follows:

	January 1, 2022	January 2, 2021
Allowance for doubtful accounts:		
Beginning balance	\$ 1.3	\$ 1.5
(Reversal) Provision	(0.3)	0.2
Reclassifications to accounts receivable allowance for doubtful accounts	-	(0.4)
Ending balance	\$ 1.0	\$ 1.3

Notes bear interest at various rates and are recorded at face value. Interest is recognized over the life of the note based on the outstanding balance and stated interest rate, which approximates the effective interest method. During fiscal years 2021, 2020 and 2019, \$1.6 million, \$1.9 million and \$2.5 million respectively, were recorded as interest income related to the notes.

Generally, in the event a Retailer cancels their membership with the Company, any outstanding Notes receivable, and related allowance for doubtful accounts, are transferred to trade receivables and the Retailer is billed for any unpaid principal and interest balances. In fiscal 2021 and 2020, \$7.9 million and \$6.7 million, respectively, of Notes receivable were transferred to trade receivables as an event occurred which made the notes due immediately. Upon transfer of the Notes receivable to trade receivables, none of the balance in fiscal 2021 and \$0.4 million in 2020 of the Notes receivable allowance for doubtful accounts was transferred to the Receivables allowance for doubtful accounts to properly match the reserve against the asset on the Consolidated Balance Sheet.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

(8) Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill were as follows:

Balance at December 28, 2019	\$ 74.6
Acquired goodwill	13.3
Balance at January 2, 2021	87.9
Acquired goodwill	1.0
Balance at January 1, 2022	\$ 88.9

Impairment exists when a reporting unit's carrying value exceeds its fair value. The Company tests reporting units for impairment annually as of the first day of the fourth quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value.

Identifiable intangible assets were as follows:

	January 1, 2022	January 2, 2021
Trademarks and trade name	\$ 10.0	\$ 10.0
Customer relationships	8.1	8.1
Maker relationships	7.7	7.7
Total identifiable intangible assets	25.8	25.8
Less accumulated amortization	(15.2)	(13.4)
Identifiable intangible assets, net	\$ 10.6	\$ 12.4

The trademarks and trade name are being amortized over 10-20 years. The customer and maker relationships are being amortized over 10 years. Net amortization expense related to all intangible assets was \$1.8 million, \$3.5 million and \$4.3 million for fiscal years 2021, 2020 and 2019, respectively. The estimated net amortization expense over the next five fiscal years is \$7.6 million.

(9) Patronage Distributions and Refund Certificates Payable

The Company operates as a cooperative organization and has paid or may pay patronage distributions to Retailers on a portion of patronage-based income derived from business done with such Retailers. Patronage distributions are allocated in proportion to the volume of purchases by Retailers during the period. The cash portion of the patronage distribution was 40 percent for all years presented.

The accrued patronage distributions composition is summarized as follows:

	Years Ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Cash portion	\$ 120.6	\$ 112.9	\$ 70.4
Class C stock	120.9	119.1	54.6
Patronage refund certificates	25.2	15.6	30.0
Patronage financing deductions	27.4	27.8	17.5
Total patronage distributions accrued for third party Retailers	\$ 294.1	\$ 275.4	\$ 172.5

Patronage distributions are allocated on a fiscal year basis with issuance in the following year.

In those instances where the maximum Class C stock requirements have been met, the non-cash portion of the patronage distribution is distributed in the form of patronage refund certificates with a five-year term and bearing interest at 4 percent.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

The patronage refund certificates outstanding at January 1, 2022 are payable as follows:

	Amount
2022	\$ 27.2
2023	23.1
2024	29.3
2025	15.2
2026	25.2
Total patronage refund certificates payable	120.0
Less current portion	(27.2)
Long-term patronage refund certificates payable	\$ 92.8

(10) Accrued Expenses

Accrued expenses include the following components:

	January 1, 2022	January 2, 2021
Salaries and wages	\$ 83.4	\$ 75.9
Insurance reserves	20.6	18.2
Deferred income	2.7	6.1
Vendor funds	23.0	5.0
Taxes	25.6	23.2
Profit sharing	26.0	23.7
Gift card	18.0	11.5
Interest	5.6	5.7
Advertising and marketing	37.9	27.6
Other	40.1	40.6
Accrued expenses	\$ 282.9	\$ 237.5

(11) Debt

The Company has a \$700.0 million line of credit facility. The facility is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company's discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the London Interbank Offered Rate ("LIBOR") rate depending on the Company's leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at January 1, 2022. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum fixed charge coverage ratio. As of January 1, 2022, the Company was in compliance with its covenants and had no outstanding borrowings under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of January 1, 2022, a total of \$17.3 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company's leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of January 1, 2022, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary had a \$100.0 million asset-based revolving credit facility ("Westlake Facility") that was scheduled to expire on October 24, 2022. On August 3, 2021, Westlake amended the facility by increasing the maximum borrowing to \$125.0 million and extending the due date to August 3, 2026. The amended facility is expandable to \$150.0 million through a \$25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. Under the

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

new facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake's discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 basis points to 50 basis points or LIBOR plus an applicable spread of 125 basis points to 150 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at January 1, 2022.

The Westlake Facility is collateralized by substantially all of Westlake's personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of January 1, 2022, ARH was in compliance with its covenants and had \$4.9 million in borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to FASB Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," the borrowings under the Westlake Facility have been classified as a Current maturity of long-term debt.

Total debt outstanding is comprised of the following:

	January 1, 2022	January 2, 2021
Revolving Credit Facility	\$ -	\$ 7.9
Westlake Facility	4.9	20.1
Installment notes with maturities through 2025 at a fixed rate of 6.00%	30.8	28.5
Total debt	35.7	56.5
Less maturities within one year	(17.1)	(31.7)
Long-term debt	<u>\$ 18.6</u>	<u>\$ 24.8</u>

The aggregate scheduled maturities of total debt at January 1, 2022 are as follows:

Fiscal Year	Amount
2022	\$ 17.1
2023	8.9
2024	6.9
2025	2.8
Total debt	<u>\$ 35.7</u>

(12) Commitments and Contingencies

Contingencies

The Company has certain contingent liabilities resulting from litigation and claims incident to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the financial position, results of operations, or liquidity of the Company. The Company expenses legal fees as they are incurred.

Other guarantees

In the normal course of business, the Company enters into commercial commitments including standby letters of credit and guarantees that could become contractual obligations. Letters of credit are issued generally to insurance agencies and financial institutions in direct support of the Company's corporate and Retailer insurance programs as well as to international vendors for imported inventory purchases. As of January 1, 2022, the Company had outstanding standby letters of credit of \$15.8 million issued in the normal course of NAIL's operations and commercial letters of credit of \$17.3 million issued by the Company's credit facility.

During fiscal 2019 the Company facilitated the adoption of the Ace Hardware Corporation Cooperative Group Health Plan ("AHP"). The AHP is a MEWA that provides medical insurance and other welfare benefits to employees of the Company and their families and employees and families of participating Retailers, beginning January 1, 2020.

The AHP is insured by Ace Group Insurance, Inc. ("AGI"), a Vermont-based captive insurance company. AGI is owned by a funded welfare trust ("Trust") that serves as the mechanism for the AHP to collect, hold, invest and pay funds deposited with the AHP for the conduct of AHP operations. The Trust is not owned by the Company or any of its subsidiaries.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

In order to establish and provide initial capitalization of the AHP, AGI and Trust, NAIL provided a \$10.0 million standby letter of credit in favor of AGI. The letter of credit was increased to \$15.0 million in 2021 and is held by the Vermont Department of Financial Regulations (“VDFR”) and can be drawn upon at VDFR’s direction if AGI becomes illiquid. The Company believes that the likelihood of the letter of credit being drawn is remote.

(13) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There is a three-level hierarchy for disclosure to show the extent and level of judgment used to estimate fair value measurements.

Level 1 – Uses unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

	Carrying Value Measured at Fair Value			
Items measured at fair value on a recurring basis	January 1, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 5.1	\$ 5.1	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	32.2	-	32.2	-
Mortgage-backed securities	8.8	-	8.8	-
U.S. government notes	10.4	9.6	0.8	-
Other	6.6	-	6.6	-
Total marketable securities	<u>\$ 58.0</u>	<u>\$ 9.6</u>	<u>\$ 48.4</u>	<u>\$ -</u>

	Carrying Value Measured at Fair Value			
Items measured at fair value on a recurring basis	January 2, 2021	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds/	\$ 2.8	\$ 2.8	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	35.1	-	35.1	-
Mortgage-backed securities	9.9	-	9.9	-
U.S. government notes	17.8	9.8	8.0	-
Other	0.4	-	0.4	-
Total marketable securities	<u>\$ 63.2</u>	<u>\$ 9.8</u>	<u>\$ 53.4</u>	<u>\$ -</u>

Level 3 – Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

The tables below set forth, by level, the Company’s financial assets, liabilities and derivative instruments that were accounted for at fair value as of January 1, 2022 and of January 2, 2021. The tables do not include cash on hand and also do not include assets and liabilities that are measured at historical cost or any basis other than fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

Long-term notes receivable approximate fair value because the Company charges its Retailers an interest rate and a significant portion of the notes have the Company's stock as collateral.

Money market funds and U.S. government notes – The Company's valuation techniques used to measure the fair values of money market funds and U.S. government notes, that were classified as Level 1 in the tables above, are derived from quoted market prices for identical instruments, as active markets for these instruments exist.

Corporate fixed income securities, Mortgage-backed securities and Other – Other securities primarily consist of taxable municipal bonds, corporate asset-backed securities, and U.S. Agency fixed rate notes and bonds. The Company's valuation techniques used to measure the fair values of corporate fixed income securities, mortgage-backed securities and other securities, that were classified as Level 2 in the tables above, are derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data.

The fair value of the Company's marketable securities was greater than their cost by \$1.3 million at January 1, 2022 and \$3.7 million at January 2, 2021, respectively.

Gross proceeds from the sale of marketable securities and the related realized gains and losses for the fiscal years ended January 1, 2022, January 2, 2021 and December 28, 2019 were as follows:

	Years Ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Gross proceeds	\$ 20.2	\$ 20.8	\$ 41.4
Gross realized gains	0.4	0.4	0.8
Gross realized losses	(0.2)	(0.2)	(0.2)

Gross realized gains and losses were determined using the specific identification method. For the fiscal year ended January 1, 2022, the Company reclassified \$0.4 million of unrealized gains and \$0.1 million of unrealized losses on marketable securities that were recorded in AOCI as of January 2, 2021 into realized income. These amounts were recorded to Other income, net in the Consolidated Statement of Income.

The following table summarizes the contractual maturity distributions of the Company's debt securities at January 1, 2022. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

Fair value of available-for-sale debt securities	Due in One Year or Less	Due After One Year through Five Years	Due After Five Years through Ten Years	Due After Ten Years	Total
Corporate fixed income securities	\$ 4.0	\$ 11.5	\$ 10.6	\$ 6.1	\$ 32.2
Mortgage-backed securities	-	0.2	0.7	7.9	8.8
U.S. government notes	0.2	7.2	0.8	2.2	10.4
Other	0.5	1.6	1.6	2.9	6.6
Total	\$ 4.7	\$ 20.5	\$ 13.7	\$ 19.1	\$ 58.0

The Company's debt instruments are recorded at cost on the Consolidated Balance Sheets. The fair value of the Company's debt approximated its carrying value at January 1, 2022. The estimated fair value of long-term debt is based on estimated rates for similar instruments and discounted cash flow analysis using the Company's weighted-average interest rate and is, therefore, classified as Level 3 within the fair value hierarchy.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

(14) Income Taxes

Income tax (expense) benefit includes the following components:

	Years Ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Current:			
Federal	\$ (13.7)	\$ 1.4	\$ (0.4)
State	(4.2)	(3.1)	(0.4)
Foreign	(0.9)	(0.9)	(1.1)
Current income tax expense	(18.8)	(2.6)	(1.9)
Deferred:			
Federal	3.6	(2.8)	12.0
State	0.2	0.4	1.5
Deferred income tax benefit (expense)	3.8	(2.4)	13.5
Total income tax (expense) benefit	\$ (15.0)	\$ (5.0)	\$ 11.6

Income tax differs from the amount computed by applying the statutory U.S. Federal income tax rate of 21 percent for fiscal years ended January 1, 2022, January 2, 2021 and December 28, 2019 to pre-tax income because of the effect of the following items:

	Years Ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Expected tax at U.S. Federal income tax rate	\$ (72.4)	\$ (67.6)	\$ (27.1)
Patronage distribution deductions	61.8	57.8	36.2
NOL carryback – tax rate differential	-	6.3	-
Other, net (expense) benefit	(4.4)	(1.5)	2.5
Income tax (expense) benefit	\$ (15.0)	\$ (5.0)	\$ 11.6

Under the CARES Act, net operating losses (“NOLs”) arising in tax years beginning after December 31, 2017 and ending before January 1, 2021 may be carried back for five years. The Company had NOLs arising in the 2018 and 2019 tax years which, prior to this legislation could only be carried forward into tax years with a federal statutory rate of 21 percent. These NOLs can now be carried back to years prior to 2018 with a federal statutory rate of 35 percent. During the year ended January 2, 2021, the Company realized a \$6.3 million federal tax benefit resulting from this tax rate differential.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of existing assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets and liabilities are as follows:

	January 1, 2022	January 2, 2021
Deferred tax assets:		
Foreign tax credits and other tax credit carryforwards	\$ 11.8	\$ 12.8
Net operating loss carryforwards	1.4	0.3
Unearned insurance premium and loss reserves	1.4	1.0
Allowance for doubtful accounts	1.1	1.1
Inventory reserves	9.1	8.0
Deferred vendor rebates	16.1	16.4
Accrued compensation and benefits expense	17.3	14.7
Other reserves	18.7	10.9
Total deferred tax assets	76.9	65.2
Less valuation allowance	(12.0)	(9.8)
Deferred tax assets	64.9	55.4

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

Deferred tax liabilities:

Depreciation and deferred gains on property and equipment	12.3	8.7
Amortization of intangibles	3.4	2.4
Net unrealized gains	0.3	0.3
Prepaid expenses and deferred income	4.8	4.5
Inventory valuation	17.0	16.7
Deferred tax liabilities	37.8	32.6
Net deferred tax assets	\$ 27.1	\$ 22.8

Net deferred tax assets are included in Other assets on the Consolidated Balance Sheets.

At January 1, 2022, the Company has state and foreign net operating loss carryforwards of \$6.1 million available for offset against future taxable income. For those states not conforming to the indefinite federal carryforward provisions, the state net operating losses can, generally, be carried forward through the 2038 tax year. A valuation allowance of \$1.0 million has been established against the foreign net operating losses as it is more likely than not that the benefit of the net operating losses will not be realized.

At January 1, 2022, the Company has foreign tax credits of \$0.5 million available to offset future tax expense. The foreign tax credits may be carried forward through the 2029 tax year.

At January 1, 2022, the Company has state tax credit carryforwards of \$11.3 million available to offset future state income tax expense. The state tax credits may be carried forward to tax years 2022 through 2026. A valuation allowance of \$11.0 million has been established against certain state tax credits as it is more likely than not that the benefit of the tax credits will not be realized.

The federal income tax returns of the consolidated group are subject to examination by the Internal Revenue Service (“IRS”), generally for three years after the returns are filed. The 2017 through 2021 tax years remain subject to examination by the IRS. For state purposes, the 2016 through 2021 tax years remain subject to examination.

The Company recognizes interest and penalties related to uncertain tax positions in Income tax expense. Accrued interest and penalties included in the reserve for uncertain tax positions were \$0.3 million at January 1, 2022 and January 2, 2021, respectively. The Company recognized immaterial amounts related to interest and penalties within Income tax expense for the years ended January 1, 2022, January 2, 2021 and December 28, 2019. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease within the next twelve months. The Company currently estimates that such increases and decreases will not be significant.

(15) Capital Stock

The Company’s classes of stock are described below (not in millions):

	Number of Shares at	
	January 1, 2022	January 2, 2021
Class A stock, voting, redeemable at par value:		
Authorized	10,000	10,000
Issued and outstanding	2,681	2,689
Class C stock, nonvoting, redeemable at not less than par value:		
Authorized	10,000,000	10,000,000
Issued and outstanding	5,838,265	5,015,306
Issuable as patronage distributions	1,209,075	1,191,050

No dividends can be declared on any shares of any class of the Company’s stock.

Upon termination of the Company’s membership agreement with any retail outlet, all shares of stock of the Company held by the Retailer owning or controlling such outlet must be sold back to the Company, unless a transfer of such shares is made to another party accepted by the Company as a Retailer with respect to the same outlet. A single Class A share is issued to a Retailer only when the share subscribed has been fully paid and Class C shares are issued only when all shares subscribed with respect to a retail outlet have been fully paid. Additional stock subscribed in the accompanying consolidated financial statements represents the paid portion of stock subscribed for stores that have not opened. All shares of stock are currently issued and repurchased at par value.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In millions)

(16) Retirement Plans

The Company has healthcare plans under which a limited number of qualified retired employees receive certain health care, dental care, life insurance or related benefits. Amounts expensed under these plans were \$0.1 million or less in each of the fiscal years 2021, 2020 and 2019.

The Company and its subsidiaries maintain profit sharing and 401k retirement plans for substantially all employees. Amounts expensed under these plans totaled \$43.5 million, \$39.3 million and \$28.8 million during fiscal 2021, 2020 and 2019, respectively.

(17) Supplemental Disclosures of Cash Flow Information

During fiscal 2021, 2020 and 2019, accrued patronage distributions of \$28.3 million, \$29.2 million and \$19.1 million, respectively, were offset against trade receivables and notes receivable owed to the Company by its Retailers with no net impact in the Consolidated Statements of Cash Flows. In addition, the Company had \$25.9 million in patronage refund certificates which were included in Accounts payable pending payment as of January 1, 2022 and had no net impact in the Consolidated Statements of Cash Flows.

During fiscal 2021, 2020 and 2019, non-cash repurchases of stock from Retailers of \$29.4 million, \$30.8 million and \$20.7 million, respectively, were offset against trade receivables of \$5.5 million, \$9.9 million and \$5.5 million, respectively, and notes receivable of \$8.4 million, \$5.6 million and \$7.0 million, respectively. The remaining \$15.5 million, \$15.3 million and \$8.2 million, respectively, were primarily issued as notes payable with no net impact in the Consolidated Statements of Cash Flows.

During fiscal 2021, the Company received \$3.6 million of property and equipment prior to year-end and accrued for these items as no cash payments were made. These capital expenditures were not included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for fiscal year 2021. During fiscal 2021, the Company paid \$9.4 million for property and equipment that was purchased and accrued during the year ended January 2, 2021. These capital expenditures were included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for fiscal year 2021.

(18) Summary of Quarterly Results

The following table provides a summary of quarterly results (unaudited) for the eight quarters prior to and including the quarter ended January 1, 2022:

	2021			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 2,066.9	\$ 2,028.6	\$ 2,466.9	\$ 2,031.8
Gross profit	271.0	326.8	376.9	319.7
Operating expenses	268.9	223.8	255.0	207.9
Net income attributable to Ace Hardware Corporation	9.9	99.3	116.0	105.5

	2020			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 2,052.7	\$ 2,000.5	\$ 2,279.1	\$ 1,430.4
Gross profit	291.4	328.9	370.6	222.6
Operating expenses	243.5	220.4	232.2	184.3
Net income attributable to Ace Hardware Corporation	43.3	98.9	139.1	36.3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting Ace Hardware Corporation's ("the Company's") consolidated operating results and financial condition during the three-year period ended January 1, 2022 (the Company's fiscal years 2021, 2020 and 2019). Fiscal year 2021 contains 52 weeks of operating results, fiscal year 2020 contained 53 weeks of operating results, and fiscal year 2019 contained 52 weeks of operating results. Unless otherwise noted, all references herein for the years 2021, 2020 and 2019 represent fiscal years ended January 1, 2022, January 2, 2021 and December 28, 2019, respectively. This discussion and analysis should be read in conjunction with the consolidated financial statements and the related notes included in this annual report that have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Company Overview

The Company is a wholesaler of hardware and other related products and provides services and best practices for its member Retailers ("Retailers"). The overall home improvement industry is estimated to be almost \$540 billion and consists of a broad range of products and services, including lawn and garden products, paint and sundries, certain building supplies and general merchandise typically used in connection with home and property improvement, remodeling, repair and maintenance. The industry is fragmented and competition exists between the large home improvement centers, retail hardware stores and other chains offering hardware merchandise. In addition, we face growing competition from online and multichannel retailers.

The Company's Retailers generally compete in the \$63 billion "convenience hardware" segment which is characterized by purchases primarily of products related to home improvement and repair, including paint and related products, lawn and garden equipment, and those products less focused on large-scale building, renovation and remodeling projects. The Company believes that the following competitive strengths distinguish it from its peers and contribute to its success in the convenience hardware market: (1) strong consumer recognition of the Ace Brand; (2) well-regarded for exceptional customer service and convenience; (3) strength of distribution operations; (4) consolidated purchasing power; (5) differentiated and localized product and service offerings; and (6) a diversified network of independent retailers.

The Company strives to be the best provider of products, services and operating methods for convenience hardware retailers. The four main drivers that support that goal and the Company's efforts to grow the business are improving the store model, accelerating new store openings, increasing store projects that drive store sales and profitability and reducing the number of store closings.

Ace Hardware International Holdings, Ltd. ("AIH") is a majority-owned and controlled subsidiary of the Company with a 21.0 percent noncontrolling interest held by AIH customers. AIH has wholesale distribution capabilities in Ningbo, China; Santa Catarina, Mexico; Colon, Panama; and Dubai, United Arab Emirates. AIH customers operate 832 stores located in approximately 65 countries.

Ace Retail Holdings LLC ("ARH") is the owner of the 151 store Westlake Ace Hardware ("Westlake") and the 59 store Great Lakes Ace Hardware, Inc. ("GLA") retail chains. As a result, the Company is also a retailer of hardware, paint and other related products.

Ace Wholesale Holdings LLC ("AWH") owns and operates Emery Jensen Distribution. AWH was formed in 2014 so that the Company could begin making wholesale hardware sales to non-member retailers.

Ace Ecommerce Holdings LLC ("AEH") owns The Grommet, an e-commerce company that operates a website that markets and sells new and innovative products created by independent entrepreneurs.

Ace Services Holdings LLC ("ASH") owns Ace Handyman Services, a franchisor of home improvement, maintenance and repair services. In the fourth quarter of 2021, ASH began operations of Ace Senior Services, which provides basic home maintenance and essential tasks for seniors. On December 22, 2021, ASH acquired the assets of Mountain Skyline Painting LLC, a provider of home painting services.

Worldwide Store Count

The number of worldwide Ace retail outlets during the past three fiscal years is summarized as follows:

	Fiscal Years		
	2021	2020	2019
Retail outlets at beginning of period	5,463	5,366	5,253
New retail outlets	206	201	208
Retail outlet cancellations	(86)	(104)	(95)
Retail outlets at end of period	5,583	5,463	5,366

Results of Operations

Comparison of the Year Ended January 1, 2022 to the Year Ended January 2, 2021

The following data summarizes the Company's performance in 2021 as compared to 2020 (in millions):

	2021		2020		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
Revenues:						
Wholesale revenues	7,782.2	90.6%	7,011.2	90.3%	771.0	11.0%
Retail revenues	812.0	9.4%	751.5	9.7%	60.5	8.1%
Total revenues	8,594.2	100.0%	7,762.7	100.0%	831.5	10.7%
Gross profit:						
Wholesale gross profit	932.6	12.0%	879.1	12.5%	53.5	6.1%
Retail gross profit	361.8	44.6%	334.4	44.5%	27.4	8.2%
Total gross profit	1,294.4	15.1%	1,213.5	15.6%	80.9	6.7%
Operating expenses:						
Wholesale operating expenses	682.8	8.8%	626.0	8.9%	(56.8)	(9.1%)
Retail operating expenses	269.9	33.2%	253.1	33.7%	(16.8)	(6.6%)
Retail pre-opening expenses	2.9	0.4%	1.3	0.2%	(1.6)	(123.1%)
Total operating expenses	955.6	11.1%	880.4	11.3%	(75.2)	(8.5%)
Operating income	338.8	4.0%	333.1	4.3%	5.7	1.7%
Interest expense	(14.4)	(0.2%)	(19.1)	(0.2%)	4.7	24.6%
Other income, net	6.3	0.0%	3.6	0.0%	2.7	75.0%
Net income attributable to Ace Hardware Corporation	330.7	3.8%	317.6	4.1%	13.1	4.1%

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2020
2020 Revenues	\$ 7,762.7	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic Ace stores:</i>		
Revenues increase from new stores added since January 2020	213.9	2.8%
Revenues decrease from stores cancelled since January 2020	(37.7)	(0.5%)
Increase in wholesale merchandise revenues to comparable domestic Ace stores	529.8	6.8%
Increase in AWH revenues	19.3	0.3%
Increase in AIH revenues	55.1	0.7%
Increase in ARH revenues	72.3	0.9%
Decrease in AEH retail revenues	(11.8)	(0.2%)
Increase in Acehardware.com revenues	16.3	0.2%
Other revenue changes, net	(25.7)	(0.3%)
2021 Revenues	\$ 8,594.2	10.7%

Consolidated revenues for the year ended January 1, 2022 totaled \$8.6 billion, an increase of \$831.5 million, or 10.7 percent, as compared to the prior year. Fiscal 2021 consisted of 52 weeks compared to 53 weeks in fiscal 2020. Excluding the 53rd week in fiscal 2020, sales increased \$931.4 million or 12.2 percent compared to fiscal 2020.

Total wholesale revenues were \$7.8 billion for fiscal 2021, an increase of \$771.0 million or 11.0 percent, as compared to the prior year. Increases were seen across almost all departments with outdoor power equipment, electrical, grilling and plumbing showing the largest gains. New domestic Ace stores are defined as stores that were activated from January 2020 through December 2021. In 2021, the Company had an increase in wholesale merchandise revenues from new domestic Ace stores of \$213.9 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic Ace store cancellations of \$37.7 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$176.2 million related to the impact of both new Ace stores affiliated with the Company and from stores that cancelled their membership in 2020 and 2021. Wholesale merchandise revenues to comparable domestic Ace stores increased \$529.8 million compared to the prior year. Warehouse sales represented 81.0 percent of

wholesale merchandise revenue in 2021 compared to 80.2 percent in 2020, while direct ship sales were 19.0 percent, down from 19.8 percent in 2020.

AWH wholesale revenues were \$426.2 million during fiscal 2021. This is an increase of \$19.3 million from fiscal 2020, which was primarily due to higher sales to e-commerce customers and traditional hardware stores.

AIH wholesale revenues were \$272.2 million during fiscal 2021. This is an increase of \$55.1 million from fiscal 2020. This was primarily the result of a resurgence in sales to AIH's two largest customers after pandemic induced declines in 2020.

Total retail revenues were \$812.0 million, an increase of \$60.5 million, or 8.1 percent, as compared to the prior year. Retail revenues from ARH were \$776.7 million during fiscal 2021, an increase of \$72.3 million or 10.3 percent. This increase was the result of new stores added by the Westlake and GLA retail chains in 2020 and 2021, coupled with a 3.3 percent increase in Westlake same-store-sales and a 4.8 percent increase in GLA same-store-sales. Retail revenues from AEH were \$35.3 million during fiscal 2021. This was a decrease of \$11.8 million from fiscal 2020, driven by a decrease in new customer acquisitions and a reversal of the 15.7 percent pandemic related increase in the prior year.

Wholesale gross profit for fiscal 2021 was \$932.6 million, an increase of \$53.5 million from fiscal 2020. The wholesale gross margin percentage was 12.0 percent of wholesale revenues in fiscal 2021, a decrease from the fiscal 2020 gross margin percentage of 12.5 percent. The decrease in wholesale gross margin percentage was primarily due to higher last-in, first-out ("LIFO") expense driven by increased vendor prices and higher receiving costs in our retail support centers.

Retail gross profit for fiscal 2021 was \$361.8 million, an increase of \$27.4 million from fiscal 2020. The retail gross margin percentage was 44.6 percent of retail revenues in fiscal 2021, a slight increase from 44.5 percent in fiscal 2020. For ARH, retail gross profit as reported in the Ace financial statements is based on the Ace wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased \$56.8 million, or 9.1 percent in fiscal 2021, as compared to fiscal 2020. The increase is due to higher distribution costs resulting from higher wholesale revenues, an increase in advertising expenses, increased healthcare costs, and an increase in lease expense driven by additional warehouse space to support increased demand. As a percentage of wholesale revenues, wholesale operating expenses decreased slightly to 8.8 percent in fiscal 2021 from 8.9 percent in fiscal 2020.

Retail operating expenses increased \$16.8 million, or 6.6 percent in fiscal 2021, as compared to fiscal 2020. This increase was primarily driven by expenses related to the new stores opened in 2020 and 2021. Retail operating expenses as a percentage of retail revenue decreased to 33.2 percent in fiscal 2021 from 33.7 percent in fiscal 2020.

Retail pre-opening expenses decreased \$1.6 million in fiscal 2021 due to fewer new stores opened by Westlake and GLA in 2021 compared to 2020.

Interest expense decreased \$4.7 million or 24.6 percent compared to fiscal 2020 due to significantly lower average borrowings outstanding and decreased London Interbank Offered Rate ("LIBOR") rates during fiscal 2021.

Other income, net increased \$2.7 million compared to fiscal 2020 as a result of the \$10.2 million gain on sale of the Company's retail support center located in Tampa, Florida, partially offset by an increase in income tax expense primarily due to changes to the tax law in 2020 that allowed the Company to carryback net operating losses which resulted in a \$6.3 million tax benefit recorded in 2020.

Comparison of the Year Ended January 2, 2021 to the Year Ended December 28, 2019

The following data summarizes the Company's performance in 2020 as compared to 2019 (in millions):

	2020		2019		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
Revenues:						
Wholesale revenues	7,011.2	90.3%	5,564.5	91.7%	1,446.7	26.0%
Retail revenues	751.5	9.7%	506.7	8.3%	244.8	48.3%
Total revenues	7,762.7	100.0%	6,071.2	100.0%	1,691.5	27.9%
Gross profit:						
Wholesale gross profit	879.1	12.5%	665.9	12.0%	213.2	32.0%
Retail gross profit	334.4	44.5%	226.7	44.7%	107.7	47.5%
Total gross profit	1,213.5	15.6%	892.6	14.7%	320.9	36.0%
Operating expenses:						
Wholesale operating expenses	626.0	8.9%	540.1	9.7%	(85.9)	(15.9%)
Retail operating expenses	253.1	33.7%	201.5	39.8%	(51.6)	(25.6%)
Retail pre-opening expenses	1.3	0.2%	8.7	1.7%	7.4	85.1%
Goodwill impairment	-	0.0%	8.5	1.7%	8.5	100.0%
Total operating expenses	880.4	11.3%	758.8	12.5%	(121.6)	(16.0%)
Operating income	333.1	4.3%	133.8	2.2%	199.3	149.0%
Interest expense	(19.1)	(0.2%)	(22.7)	(0.4%)	3.6	15.9%
Other income, net	3.6	0.0%	29.3	0.5%	(25.7)	(87.7%)
Net income attributable to Ace Hardware Corporation	317.6	4.1%	140.4	2.3%	177.2	126.2%

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2019
2019 Revenues	\$ 6,071.2	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic Ace stores:</i>		
Revenues increase from new stores added since January 2019	204.1	3.4%
Revenues decrease from stores cancelled since January 2019	(38.9)	(0.6%)
Increase in wholesale merchandise revenues to comparable domestic Ace stores	1,176.5	19.4%
Increase in AWH revenues	25.8	0.4%
Decrease in AIH revenues	(36.0)	(0.6%)
Increase in ARH revenues	237.9	3.9%
Increase in AEH retail revenues	6.4	0.1%
Increase in Acehardware.com revenues	186.5	3.1%
Other revenue changes, net (primarily elimination of increased wholesale revenue to ARH)	(70.8)	(1.2%)
2020 Revenues	\$ 7,762.7	27.9%

Consolidated revenues for the year ended January 2, 2021 totaled \$7.8 billion, an increase of \$1.7 billion, or 27.9 percent, as compared to the prior year. Fiscal 2020 consisted of 53 weeks compared to 52 weeks in fiscal 2019. The 53rd week added \$99.9 million in sales. Excluding the 53rd week, sales increased \$1.6 billion or 26.2 percent compared to fiscal 2019.

Total wholesale revenues were \$7.0 billion for fiscal 2020, an increase of \$1.5 billion, or 26.0 percent, as compared to the prior year. Increases were noted across all departments with grilling, paint, power tools and outdoor power equipment showing the largest gains. New domestic Ace stores are defined as stores that were activated from January 2019 through December 2020. In 2020, the Company had an increase in wholesale merchandise revenues from new domestic Ace stores of \$204.1 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic Ace store cancellations of \$38.9 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$165.2 million related to the impact of both new Ace stores affiliated with the Company and from stores that cancelled their membership in 2019 and 2020. Wholesale merchandise revenues to comparable domestic Ace stores increased \$1.2 billion compared to the prior year. Warehouse sales represented 80.2 percent of wholesale merchandise revenue in 2020 compared to 78.9 percent in 2019, while direct ship sales were 19.8 percent, down from 21.1 percent in 2019.

AWH wholesale revenues were \$406.9 million during fiscal 2020. This is an increase of \$25.8 million from fiscal 2019, which was primarily due to higher sales to e-commerce customers and traditional hardware stores.

AIH wholesale revenues were \$217.1 million during fiscal 2020. This is a decrease of \$36.0 million from fiscal 2019, as the global pandemic caused temporary store closures at AIH's largest customers.

Total retail revenues were \$751.5 million, an increase of \$244.8 million, or 48.3 percent, as compared to the prior year. Retail revenues from ARH were \$704.4 million during fiscal 2020, an increase of \$237.9 million or 51.0 percent. Westlake experienced a 24.7 percent increase in same-store-sales while GLA grew same-store-sales by 32.7 percent during fiscal 2020. The eleven new California stores opened by Westlake in 2019 contributed \$87.2 million of the increase. Retail revenues from AEH were \$47.1 million during fiscal 2020. This was an increase of \$6.4 million from fiscal 2019, primarily driven by new customer acquisitions.

Wholesale gross profit for fiscal 2020 was \$879.1 million, an increase of \$213.2 million from fiscal 2019. The wholesale gross margin percentage was 12.5 percent of wholesale revenues in fiscal 2020, an increase from the fiscal 2019 gross margin percentage of 12.0 percent. The increase in wholesale gross margin percentage was due to the increased volume, which led to higher vendor funds earned.

Retail gross profit for fiscal 2020 was \$334.4 million, an increase of \$107.7 million from fiscal 2019. The retail gross margin percentage was 44.5 percent of retail revenues in fiscal 2020, down slightly from 44.7 percent in fiscal 2019. For ARH, retail gross profit as reported in the Ace financial statements is based on the Ace wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased \$85.9 million, or 15.9 percent in fiscal 2020, as compared to fiscal 2019. The increase is due to higher distribution costs resulting from higher wholesale revenues and an increase in advertising expenses. As a percentage of wholesale revenues, wholesale operating expenses decreased to 8.9 percent in fiscal 2020 from 9.7 percent in fiscal 2019.

Retail operating expenses increased \$51.6 million, or 25.6 percent in fiscal 2020, as compared to fiscal 2019. This increase was primarily driven by compensation and operating costs to support the increase in retail revenues along with expenses related to the eleven new California stores. Retail operating expenses as a percentage of retail revenue decreased to 33.7 percent in fiscal 2020 from 39.8 percent in fiscal 2019.

Retail pre-opening expenses decreased \$7.4 million in fiscal 2020 due to expenses related to the eleven new California stores which opened in 2019.

During fiscal 2019, the Company recorded a non-cash impairment charge of \$8.5 million to fully eliminate the carrying amount of goodwill in the AEH subsidiary.

Interest expense decreased \$3.6 million or 15.9 percent compared to fiscal 2019 due a significant decrease in LIBOR rates during fiscal 2020.

Other income, net decreased \$25.7 million compared to fiscal 2019 primarily due to a \$16.6 million increase in income tax expense in fiscal 2020 compared to fiscal 2019 due to increased taxable income from non-patronage sources. Additionally, Other income, net decreased as a result of the \$4.9 million gain recorded in fiscal 2019 on the sale of the Company's Prince George Retail Support Center ("RSC") and decreased gains on equity investments.

Liquidity and Capital Resources

The Company believes that existing cash balances, along with the existing lines of credit and long-term financing, will be sufficient to finance the Company's working capital requirements, debt service, patronage distributions, capital expenditures, share redemptions from Retailer cancellations and growth initiatives for at least the next 12 months.

The Company's borrowing requirements have historically arisen from, and are expected to continue to arise from, seasonal working capital needs, debt service, capital improvements and acquisitions, patronage distributions and other general corporate purposes. In the past, the Company has met its operational cash needs using cash flows from operating activities and funds from its revolving credit facilities. The Company currently estimates that its cash flows from operating activities and working capital, together with its lines of credit, will be sufficient to fund its short-term liquidity needs. Actual liquidity and capital funding requirements depend on numerous factors, including operating results, general economic conditions and the cost of capital.

The Company has a \$700.0 million line of credit facility. The facility is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company's discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the LIBOR rate depending on the Company's leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at January 1, 2022. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum fixed charge coverage ratio. As of January 1, 2022, the Company was in compliance with its covenants and had no outstanding borrowings under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of January 1, 2022, a total of \$17.3 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company's leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of January 1, 2022, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary had a \$100.0 million asset-based revolving credit facility ("Westlake Facility") that was scheduled to expire on October 24, 2022. On August 3, 2021, Westlake amended the facility by increasing the maximum borrowing to \$125.0 million and extending the due date to August 3, 2026. The amended facility is expandable to \$150.0 million through a \$25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. Under the new facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake's discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 basis points to 50 basis points or LIBOR plus an applicable spread of 125 basis points to 150 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at January 1, 2022.

The Westlake Facility is collateralized by substantially all of Westlake's personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of January 1, 2022, ARH was in compliance with its covenants and had \$4.9 million in borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," the borrowings under the Westlake Facility have been classified as a Current maturity of long-term debt.

Total debt, the majority of which is comprised of the \$30.8 million owed to former Retailers, was \$35.7 million as of January 1, 2022, compared to \$56.5 million as of January 2, 2021.

Cash Flows

The Company had \$37.6 million and \$28.9 million of cash and cash equivalents at January 1, 2022 and January 2, 2021, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for fiscal years 2021 and 2020, respectively (in millions):

	2021	2020
Cash provided by operating activities before changes in assets and liabilities	\$ 399.9	\$ 385.4
Net changes in assets and liabilities	(82.0)	75.8
Net cash provided by operating activities	317.9	461.2
Net cash used in investing activities	(127.2)	(128.8)
Net cash used in financing activities	(182.0)	(321.7)
Net change in cash and cash equivalents	\$ 8.7	\$ 10.7

The Company's operating activities generated \$317.9 million of cash in fiscal 2021 compared to \$461.2 million in fiscal 2020. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities increased from \$385.4 million in fiscal 2020 to \$399.9 million in fiscal 2021. This increase of \$14.5 million was due to the \$13.1 million increase in net income.

The net change in assets and liabilities used \$82.0 million of cash in fiscal 2021 compared to \$75.8 million provided in fiscal 2020. Accounts payable and accrued expenses increased \$28.1 million during fiscal 2021 compared to an increase of \$337.3 million during fiscal 2020. Accounts payable grew at a lower rate in 2021 compared to 2020 as a result of the December 2019 balances not being impacted by the significant growth the Company has seen since the start of the pandemic. Fiscal 2020 saw a 26.0 percent increase in wholesale revenues compared to fiscal 2019 and fiscal 2021 saw an additional 11.0 percent increase in wholesale revenues compared to fiscal 2020. The smaller increase in wholesale revenues year over year led to slower growth in accounts payable for fiscal 2021 compared to fiscal 2020.

Net cash used for investing activities was \$127.2 million in fiscal 2021 compared to \$128.8 million in fiscal 2020. Investing activities in fiscal 2021 consisted of \$107.7 million in capital expenditures and \$40.4 million for the purchases of investment securities, a portion of which was used to support the Company's deferred compensation plan. These cash uses were partially offset by \$27.1 million in proceeds from the sale of marketable securities and \$12.8 million of cash proceeds from the sale of assets, which included the sale of the Tampa RSC. Investing activities in fiscal 2020 consisted of \$99.0 million in capital expenditures and \$21.5 million paid for the acquisition of additional Retail stores by ARH.

Net cash used in financing activities was \$182.0 million in fiscal 2021 compared to \$321.7 million in fiscal 2020. During fiscal 2021, the Company had \$23.1 million of net payments under the revolving lines of credit, paid \$113.8 million for the cash portion of the 2020 patronage distributions, paid \$17.1 million on patronage refund certificates and had \$13.4 million in payments on long-term debt. During 2020, the Company had \$224.9 million of net payments under the revolving lines of credit, paid \$66.2 million for the cash portion of the 2019 patronage distributions, paid \$9.7 million on patronage refund certificates and had \$10.7 million in payments on long-term debt.

Off-balance sheet arrangements

The Company has certain other guarantees, as further described in the Notes to the Consolidated Financial Statements – Note 12 – Commitments and Contingencies. The Company believes the likelihood of any such payment under these guarantees is remote.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, and these estimates would vary under different assumptions or conditions. Management believes these estimates and assumptions are reasonable.

The Company annually reviews its financial reporting and disclosure practices and accounting policies to ensure that they provide accurate and comprehensive information relative to the current economic and business environment. The Company's significant accounting policies are described in the Notes to the Consolidated Financial Statements. The following represents those critical accounting policies which involve a relatively higher degree of judgment, estimation and complexity and where materially different amounts could be reported under different conditions or using different assumptions.

Valuation of Inventories When necessary, the Company provides allowances to adjust the carrying value of inventories to the lower of cost or market, including costs to sell or dispose of surplus or damaged/obsolete inventory, and for estimated shrinkage. Estimates of the future demand for the Company's products are key factors used by management in assessing the net realizable value of the inventories. While management believes that the estimates used are appropriate, an unanticipated decline in revenues at retail outlets or a significant decline in demand for products in selected product categories could result in valuation adjustments.

Vendor Funds The Company receives funds from vendors in the normal course of business principally as a result of purchase volumes, revenues or promotions of vendors' products. Based on the provisions of the vendor agreements in place, management develops accrual rates by estimating the point at which the Company will have completed its performance under the agreement and the amount agreed upon will be earned. Amounts accrued throughout the year can be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met. At year-end, the accrual reflects actual purchases made throughout the year.

Vendor funds are treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by the customer to sell the vendor's product, in which case the costs would be netted. The majority of the vendor funds that the Company receives do not meet the specific, incremental and identifiable criteria. Therefore, the Company treats a majority of these funds as a reduction in the cost of inventory as the amounts are accrued and recognized as a reduction of cost of revenues when the inventory is sold.

Allowance for Doubtful Accounts The allowance for doubtful accounts reflects management's estimate of the future amount of accounts and notes receivable that will not be collected. Management records allowances for doubtful accounts based on judgments made considering a number of factors, primarily historical collection statistics, current retailer credit information, the current economic environment, the aging of receivables, the evaluation of compliance with lending covenants and the offsetting amounts due to Retailers for stock, notes, interest and anticipated but unpaid patronage distributions. While the Company believes it has appropriately considered known or expected outcomes, its customers' ability to pay their obligations, including those to the Company, could be adversely affected by declining revenues at retail resulting from such factors as contraction in the economy or competitive conditions in the wholesale and retail industry including increased competition from omni-channel retailers, discount stores, chain stores and other mass merchandisers.

The Company's allowance for doubtful accounts at January 1, 2022 and January 2, 2021 was \$5.3 million and \$6.1 million, respectively. Actual credit losses could vary materially from the Company's estimates.

Insurance Reserves Insurance reserves for claims related to the Company's self-insured property, general liability, workers' compensation and auto liability insurance programs are dependent on assumptions used in calculating such amounts. These assumptions include projected ultimate losses and confidence levels of the reserve requirement and consider historical loss levels and other factors. While management believes that the assumptions used are appropriate, differences in actual claims experience or changes in assumptions may affect the Company's insurance reserves.

Goodwill Goodwill represents the excess of the cost of an acquired business over the fair value of net tangible assets acquired and identified intangible assets. Goodwill is not amortized but is tested for impairment at a reporting unit level on an annual basis or more frequently, if circumstances change or an event occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Qualitative factors may be assessed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If an election is made to not perform the qualitative assessment, or the qualitative assessment indicates that the carrying amount is more likely than not higher than the fair value, goodwill is tested for impairment. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. The income approach is based on discounted cash flows, which are derived from internal forecasts and economic expectations for each respective reporting unit.

The Company tests reporting units for impairment annually as of the first day of the fourth quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value. No goodwill impairment charge was recorded during fiscal years 2021 and 2020. The Company recorded an impairment charge of \$8.5 million in fiscal 2019.

Impact of New Accounting Standards

Recently issued accounting pronouncements that are not yet effective and that were not discussed below are either inapplicable to the Company or, if applicable, the Company does not expect that they will have a material impact on consolidated results of operations, consolidated financial condition, or consolidated cash flows.

New Accounting Pronouncements – Issued

In November 2021, the FASB issued Accounting Standards Update ("ASU") No. 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities". Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. The guidance also requires a lessee to use the rate implicit in the lease if the rate is readily determinable, regardless of whether the lessee has elected

the risk-free rate expedient. ASU 2021-09 is effective for the Company for year-end financial statements in fiscal 2022. The Company is evaluating the impact that ASU 2021-09 will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" along with amendments issued in 2018. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The amortized cost basis of financial assets should be reduced by expected credit losses to present the net carrying value in the financial statements at the amount expected to be collected. The measurement of expected credit losses is based on past events, historical experience, current conditions and forecasts that affect the collectability of the financial assets. Additionally, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 is effective for the Company for year-end financial statements and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that ASU 2016-13 will have on the Company's consolidated financial statements.

Qualitative and Quantitative Disclosure About Market Risk

Inflation and Changes in Prices The Company's business is not generally governed by contracts that establish prices substantially in advance of the receipt of goods or services. As vendors increase or decrease their prices for merchandise supplied to the Company, the Company generally increases or decreases the price to its customers in an equal amount plus the normal handling charge on such amounts. The U.S. economy is experiencing a significant increase in inflation as the prices of raw materials and freight have negatively impacted the costs the Company pays to acquire products. The Company attempts to offset the effect of increased costs by passing along cost increases to the Company's customers. If these increases cannot be passed to our customers, our financial condition, results of operations, liquidity, and cash flows may be negatively affected.

Foreign Currency Although the Company has international operating entities, its exposure to foreign currency rate fluctuations is not significant to its financial condition and results of operations.

Customer Credit Risk The Company is exposed to the risk of financial non-performance by customers. The Company's ability to collect on sales to its customers is dependent on the liquidity of its customer base. Volatility in credit markets may reduce the liquidity of the Company's customer base. To manage customer credit risk, the Company monitors historical collection statistics, current retailer credit information, the current economic environment, the aging of receivables, the evaluation of compliance with lending covenants and the offsetting amounts due to Retailers for stock, notes, interest and anticipated but unpaid patronage distributions. From certain customers, the Company also obtains collateral as considered necessary to reduce risk of loss. The Company does not believe the loss of any single customer would have a material adverse effect on its results of operations.

Interest Rate Volatility The Company has exposure to fluctuations in interest rates on its floating rate debt. The Company believes that its exposure to interest rate fluctuations is not significant to its financial condition and results of operations.

Disclosure Regarding Forward-Looking Statements

This document includes certain forward-looking statements about the expectations of the Company. Although the Company believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Such forward-looking statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "planned," "potential," "should," "will," "would," "project," "estimate," "ultimate," or similar phrases. Actual results may differ materially from those indicated in the Company's forward-looking statements and undue reliance should not be placed on such statements.

Factors that could cause materially different results include, but are not limited to, weather conditions; natural disasters; fair value accounting adjustments; inventory valuation; health care costs; insurance costs or recoveries; legal costs; borrowing needs; interest rates; credit conditions; economic and market conditions; accidents, leaks, equipment failures, ransomware attacks, service interruptions, and other operating risks; legislative actions; tax rulings or audit results; asset sales; significant unplanned capital needs; changes in accounting principles, interpretations, methods, judgments or estimates; performance of major customers, transporters, suppliers and contractors; labor relations; civil unrest; pandemics; and acts of terrorism.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this report.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus a global pandemic. The pandemic is having a significant effect on overall economic conditions and the preventative and protective measures taken by governments are resulting in global business disruptions, including the Company's customers and vendors. Some of the Company's customers have seen a temporary reduction of operating hours for their stores, as well as temporary store closures where government mandated. While the impact of the pandemic is currently expected to be temporary, there is uncertainty around the severity and duration of the disruption. Although the Company continues to see significant increases in revenues, the possibility still exists that the pandemic may negatively affect its future operating results, financial position and cash flow. However, the financial impacts cannot be reasonably estimated at

this time. The Company is monitoring its working capital, including its accounts receivable and inventory, closely for signs of deterioration due to late payments, bad debts and reduced demand.

The Company continues to monitor its operations and government recommendations and has made modifications to its normal operations because of the pandemic. These modifications vary by location depending on local conditions and government mandates. While the measures the Company has taken serve to reduce the possibility of transmission of the virus within its workplaces, they do not assure that the Company's employees will not contract the virus or bring it into the workplace. If the Company were forced to close any of its warehouses for an extended period of time, the Company's operations would be significantly disrupted resulting in a material adverse effect on the Company's business, financial condition, results of operations and liquidity.

The U.S. economy is experiencing a significant increase in inflation as the prices of raw materials and freight have negatively impacted the costs the Company pays to acquire products. The Company attempts to offset the effect of increased costs by passing along cost increases to the Company's customers. If these increases cannot be passed to our customers, our financial condition, results of operations, liquidity, and cash flows may be negatively affected.

The Company continues to monitor these market forces but cannot reasonably predict the long-term impacts of these evolving developments.

FIVE YEAR SUMMARY OF EARNINGS AND DISTRIBUTIONS

	Years Ended				
	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)	December 29, 2018 (52 Weeks)	December 30, 2017 (52 Weeks)
Revenues	\$ 8,594.2	\$ 7,762.7	\$ 6,071.2	\$ 5,717.0	\$ 5,388.4
Cost of revenues	7,299.8	6,549.2	5,178.6	4,921.9	4,634.1
Gross profit	1,294.4	1,213.5	892.6	795.1	754.3
Total operating and other expenses, net	963.7	895.9	752.2	667.4	607.7
Net income attributable to Ace Hardware Corporation	\$ 330.7	\$ 317.6	\$ 140.4	\$ 127.7	\$ 146.6

Distribution of net income:

Patronage distributions to third party Retailers	\$ 294.1	\$ 275.4	\$ 172.5	\$ 135.4	\$ 150.6
Net income (loss) of non-patronage activities	36.6	42.2	(32.1)	(7.7)	(4.0)
Net income attributable to Ace Hardware Corporation	\$ 330.7	\$ 317.6	\$ 140.4	\$ 127.7	\$ 146.6

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of Ace Hardware Corporation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the internal and external auditors. In addition, the Company has distributed to employees its policies for conducting business affairs in a lawful and ethical manner.

The consolidated financial statements of the Company have been audited by Ernst & Young LLP, independent accountants. Their accompanying report is based upon audits conducted in accordance with auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal control and financial reporting matters. The Audit Committee recommends to the full Board of Directors the selection of the independent auditors and regularly reviews the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.

February 15, 2022

/s/ John Venhuizen

John Venhuizen

President and Chief Executive Officer

/s/ William M. Guzik

William M. Guzik

Executive Vice President,

Chief Financial Officer and Chief Risk Officer

/s/ Steven G. Locanto

Steven G. Locanto

Vice President, Controller

**UNAUDITED FINANCIAL STATEMENTS OF
ACE HARDWARE CORPORATION
FOR THE PERIOD ENDED JULY 2, 2022**

THESE FINANCIAL STATEMENTS WERE PREPARED WITHOUT AN AUDIT, BUT HAVE BEEN REVIEWED BY OUR AUDITORS. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES.

ACE HARDWARE CORPORATION
Quarterly report for the period ended July 2, 2022



ACE HARDWARE CORPORATION
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Review Report of Independent Auditors

The Board of Directors
Ace Hardware Corporation

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated interim financial statements of Ace Hardware Corporation (the Company), which comprise the consolidated balance sheets as of July 2, 2022 and July 3, 2021, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended July 2, 2022 and July 3, 2021, and the consolidated statements of equity and cash flows for the six-month periods ended July 2, 2022 and July 3, 2021, and the related notes (collectively referred to as the "interim financial information").

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

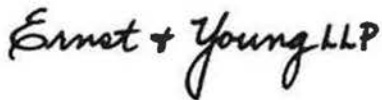
We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

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

Report on Balance Sheet as of January 1, 2022

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of January 1, 2022, and the related consolidated statements of income, comprehensive income, consolidated statement of equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 15, 2022. In our opinion, the accompanying consolidated balance sheet of the Company as of January 1, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chicago, Illinois
August 23, 2022

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
	(13 Weeks)	(13 Weeks)	(26 Weeks)	(26 Weeks)
Revenues:				
Wholesale revenues	\$ 2,275.0	\$ 2,211.6	\$ 4,332.0	\$ 4,080.7
Retail revenues	258.0	255.3	414.6	418.0
Total revenues	<u>2,533.0</u>	<u>2,466.9</u>	<u>4,746.6</u>	<u>4,498.7</u>
Cost of revenues:				
Wholesale cost of revenues	1,987.7	1,948.4	3,782.7	3,573.9
Retail cost of revenues	143.5	141.6	227.1	228.2
Total cost of revenues	<u>2,131.2</u>	<u>2,090.0</u>	<u>4,009.8</u>	<u>3,802.1</u>
Gross profit:				
Wholesale gross profit	287.3	263.2	549.3	506.8
Retail gross profit	114.5	113.7	187.5	189.8
Total gross profit	<u>401.8</u>	<u>376.9</u>	<u>736.8</u>	<u>696.6</u>
Wholesale operating expenses:				
Distribution operations expenses	64.6	65.5	126.1	119.9
Selling, general and administrative expenses	56.6	55.4	113.8	108.0
Retailer success and development expenses	66.7	64.0	109.4	102.6
Retail operating expenses	81.1	69.0	148.9	130.7
Retail pre-opening expenses	0.5	1.1	0.7	1.7
Total operating expenses	<u>269.5</u>	<u>255.0</u>	<u>498.9</u>	<u>462.9</u>
Operating income	<u>132.3</u>	<u>121.9</u>	<u>237.9</u>	<u>233.7</u>
Interest expense	(4.4)	(3.4)	(8.4)	(7.4)
Interest income	0.1	1.5	1.7	2.7
Other income, net	0.3	1.1	22.0	1.6
Income tax expense	<u>(3.5)</u>	<u>(5.1)</u>	<u>(8.6)</u>	<u>(9.2)</u>
Net income	<u>124.8</u>	<u>116.0</u>	<u>244.6</u>	<u>221.4</u>
Less: net loss attributable to noncontrolling interests	<u>(0.1)</u>	<u>-</u>	<u>(0.4)</u>	<u>(0.1)</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 124.9</u>	<u>\$ 116.0</u>	<u>\$ 245.0</u>	<u>\$ 221.5</u>
Patronage distributions accrued	<u>\$ 111.7</u>	<u>\$ 95.7</u>	<u>\$ 247.3</u>	<u>\$ 204.7</u>
Patronage distributions accrued for third party Retailers	<u>\$ 106.4</u>	<u>\$ 92.6</u>	<u>\$ 237.3</u>	<u>\$ 198.7</u>

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
	(13 Weeks)	(13 Weeks)	(26 Weeks)	(26 Weeks)
Net income	\$ 124.8	\$ 116.0	\$ 244.6	\$ 221.4
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(0.3)	-	-	-
Unrealized (loss) gain on available-for-sale debt securities	(2.3)	0.4	(4.7)	(1.3)
Total other comprehensive (loss) income, net	(2.6)	0.4	(4.7)	(1.3)
Comprehensive income	122.2	116.4	239.9	220.1
Less: Comprehensive loss attributable to noncontrolling interests	(0.1)	-	(0.4)	(0.1)
Comprehensive income attributable to Ace Hardware Corporation	\$ 122.3	\$ 116.4	\$ 240.3	\$ 220.2

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	July 2, 2022	January 1, 2022	July 3, 2021
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 48.8	\$ 37.6	\$ 51.7
Marketable securities	52.8	58.0	61.8
Receivables, net of allowance for doubtful accounts of \$5.8, \$4.3 and \$6.4, respectively	827.6	533.6	746.1
Inventories	1,533.3	1,224.3	1,203.6
Prepaid expenses and other current assets	59.8	63.9	61.3
Total current assets	2,522.3	1,917.4	2,124.5
Property and equipment, net	451.6	453.4	437.6
Operating lease right-of-use assets, net	616.9	497.3	532.4
Finance lease right-of-use assets, net	80.4	68.1	44.8
Goodwill and other intangible assets, net	93.8	99.5	100.3
Other assets	115.2	105.7	109.9
Total assets	\$ 3,880.2	\$ 3,141.4	\$ 3,349.5
Liabilities and Equity			
Current maturities of long-term debt	\$ 13.6	\$ 17.1	\$ 11.9
Accounts payable	1,503.8	1,095.2	1,413.3
Patronage distributions payable in cash	97.6	120.6	82.0
Patronage refund certificates payable	27.2	27.2	26.5
Current operating lease liabilities	70.4	64.3	66.6
Current finance lease liabilities	14.0	10.9	6.9
Accrued expenses	213.6	282.9	182.9
Total current liabilities	1,940.2	1,618.2	1,790.1
Long-term debt	214.9	18.6	73.9
Patronage refund certificates payable	111.6	92.8	105.6
Long-term operating lease liabilities	571.7	456.3	488.1
Long-term finance lease liabilities	65.4	56.4	37.2
Other long-term liabilities	96.8	91.0	78.1
Total liabilities	3,000.6	2,333.3	2,573.0
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,675, 2,681 and 2,697 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 6,753,381, 5,838,265 and 6,007,637 issued and outstanding, respectively	675.3	583.8	600.8
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 981,230, 1,209,075 and 848,949 shares issuable, respectively	98.2	120.9	84.9
Contributed capital	19.0	19.1	19.0
Retained earnings	76.7	68.9	55.0
Accumulated other comprehensive (loss) income	(3.7)	1.0	1.7
Equity attributable to Ace member Retailers	868.2	796.4	764.1
Equity attributable to noncontrolling interests	11.4	11.7	12.4
Total equity	879.6	808.1	776.5
Total liabilities and equity	\$ 3,880.2	\$ 3,141.4	\$ 3,349.5

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in millions)

Shareholders of Ace Hardware Corporation

	Capital Stock		Class C Stock Issuable to Retailers for Patronage Dividends	Additional Stock Subscribed	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
	Class A	Class C							
Balances at January 2, 2021	\$ 2.7	\$ 501.5	\$ 119.1	\$ -	\$ 19.0	\$ 32.3	\$ 3.0	\$ 12.3	\$ 689.9
Net income (loss)	-	-	-	-	-	221.5	-	(0.1)	221.4
Other comprehensive loss	-	-	-	-	-	-	(1.3)	-	(1.3)
Net payments on subscriptions	-	-	-	0.7	-	-	-	-	0.7
Stock issued	0.1	116.9	(119.1)	(0.7)	-	(0.1)	-	-	(2.9)
Change in noncontrolling interests	-	-	-	-	(0.2)	(0.1)	-	0.2	(0.1)
Stock repurchased	(0.1)	(17.6)	-	-	-	-	-	-	(17.7)
Patronage distributions issuable	-	-	84.9	-	-	-	-	-	84.9
Patronage distributions payable	-	-	-	-	-	(198.7)	-	-	(198.7)
Other	-	-	-	-	0.2	0.1	-	-	0.3
Balances at July 3, 2021	\$ 2.7	\$ 600.8	\$ 84.9	\$ -	\$ 19.0	\$ 55.0	\$ 1.7	\$ 12.4	\$ 776.5
Balances at January 1, 2022	\$ 2.7	\$ 583.8	\$ 120.9	\$ -	\$ 19.1	\$ 68.9	\$ 1.0	\$ 11.7	\$ 808.1
Net income (loss)	-	-	-	-	-	245.0	-	(0.4)	244.6
Other comprehensive loss	-	-	-	-	-	-	(4.7)	-	(4.7)
Net payments on subscriptions	-	-	-	1.0	-	-	-	-	1.0
Stock issued	0.1	120.3	(120.9)	(1.0)	-	0.2	-	-	(1.3)
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	0.1	(0.1)
Stock repurchased	(0.1)	(28.8)	-	-	-	-	-	-	(28.9)
Patronage distributions issuable	-	-	98.2	-	-	-	-	-	98.2
Patronage distributions payable	-	-	-	-	-	(237.3)	-	-	(237.3)
Balances at July 2, 2022	\$ 2.7	\$ 675.3	\$ 98.2	\$ -	\$ 19.0	\$ 76.7	\$ (3.7)	\$ 11.4	\$ 879.6

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended	
	July 2, 2022 (26 Weeks)	July 3, 2021 (26 Weeks)
Operating Activities		
Net income	\$ 244.6	\$ 221.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46.6	34.8
Amortization of deferred financing costs	0.2	0.2
Gain on the disposal of assets, net	(21.7)	(0.2)
Provision for doubtful accounts	2.1	1.4
Other, net	11.7	4.7
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(328.2)	(246.2)
Inventories	(308.4)	(69.0)
Other current assets	4.0	(6.1)
Other long-term assets	(3.4)	6.0
Accounts payable and accrued expenses	365.7	269.5
Other long-term liabilities	5.8	4.5
Deferred taxes	0.5	(3.7)
Net cash provided by operating activities	<u>19.5</u>	<u>217.3</u>
Investing Activities		
Purchases of investment securities	(7.8)	(32.3)
Proceeds from sale of investment securities	6.8	16.2
Purchases of property and equipment	(45.5)	(51.7)
Cash paid for acquired businesses, net of cash received	(1.0)	(2.6)
Increase in notes receivable, net	(9.3)	(8.1)
Proceeds from sale of assets	28.3	-
Other, net	(1.1)	(0.2)
Net cash used in investing activities	<u>(29.6)</u>	<u>(78.7)</u>
Financing Activities		
Net borrowings under revolving lines of credit	186.9	28.2
Principal payments on long-term debt	(6.1)	(6.6)
Principal portion of finance lease payments	(8.3)	(3.6)
Payments of cash portion of patronage distribution	(121.0)	(113.8)
Payments of patronage refund certificates	(25.9)	(16.9)
Repurchase of stock	(4.8)	(3.7)
Purchase of noncontrolling interests	(0.4)	(0.2)
Other, net	0.9	0.8
Net cash provided by (used in) financing activities	<u>21.3</u>	<u>(115.8)</u>
Increase in cash and cash equivalents	11.2	22.8
Cash and cash equivalents at beginning of period	37.6	28.9
Cash and cash equivalents at end of period	<u>\$ 48.8</u>	<u>\$ 51.7</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 8.0	\$ 8.6
Income taxes paid	<u>\$ 1.0</u>	<u>\$ 10.2</u>

See accompanying notes to the consolidated financial statements.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in millions)

(1) Summary of Significant Accounting Policies

The Company and Its Business

Ace Hardware Corporation ("the Company") is a wholesaler of hardware, paint and other related products. The Company also provides to its retail members ("Retailers") value-added services such as advertising, marketing, merchandising and store location and design services. The Company's goods and services are sold predominately within the United States, primarily to retailers that operate hardware stores and with whom the Company has a retail membership agreement. As a retailer-owned cooperative, the Company distributes substantially all of its patronage sourced income in the form of patronage distributions to Retailers based on their volume of merchandise purchases.

Ace Hardware International Holdings, Ltd. ("AIH"), is a majority-owned and controlled subsidiary of the Company with a 21.2 percent noncontrolling interest held by AIH customers. AIH shareholders do not own shares of stock in the Company nor receive patronage dividends.

Ace Retail Holdings LLC ("ARH") is the owner of the 155 store Westlake Ace Hardware ("Westlake") and the 60 store Great Lakes Ace Hardware ("GLA") retail chains. As a result, the Company is also a retailer of hardware, paint and other related products.

Ace Wholesale Holdings LLC ("AWH") owns and operates Emery Jensen Distribution. AWH was formed so that the Company could make wholesale hardware sales to non-member retailers.

Ace Ecommerce Holdings LLC ("AEH") owns The Grommet, an e-commerce company that operates a website that markets and sells new and innovative products created by independent entrepreneurs. During the three months ended July 2, 2022, the Company determined that The Grommet business model was no longer viable and announced the shutdown of The Grommet. Business operations will cease during the third quarter of 2022. See Note 2 for additional details regarding the shutdown of The Grommet.

Ace Services Holdings LLC ("ASH") owns Ace Handyman Services, a franchisor of home improvement, maintenance and repair services. In the fourth quarter of 2021, ASH began operations of Ace Senior Services, which provides basic home maintenance and essential tasks for seniors. On December 22, 2021, ASH acquired the assets of Mountain Skyline Painting LLC, a provider of home painting services. On July 29, 2022, ASH acquired the assets of Legacy Plumbing, Inc. a provider of residential plumbing services.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2021 Annual Report. The unaudited consolidated financial statements for the three and six months ended July 2, 2022 and July 3, 2021 both cover a 13-week and 26-week period, respectively.

Subsequent events have been evaluated through August 23, 2022, the date these statements were available to be issued.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and six months ended July 2, 2022 are not necessarily indicative of the results to be expected for the full fiscal year 2022.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACE HARDWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited, in millions)

Revenue Recognition

Revenue is recognized when performance obligations under the terms of contracts with our customers are satisfied; generally, this occurs with the transfer of control of merchandise or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The Company excludes sales and usage-based taxes collected and recognizes revenues net of expected returns. Provisions for sales returns are provided at the time the related sales are recorded based on historic returns activity.

The Company's warehouse merchandise revenue originates with a single performance obligation to ship the products, and therefore the Company's performance obligations are satisfied when control of the products is transferred to the customer per the arranged shipping terms. The customer takes ownership and assumes risk of loss for warehouse merchandise upon delivery. Although products are generally shipped FOB shipping point, the Company effectively retains the responsibilities of ownership until the goods reach the customer. The Company considers shipping and handling as activities to fulfill its performance obligation for warehouse merchandise revenues. Billings for freight are accounted for as Revenues and shipping and handling costs are accounted for in Cost of revenues.

The Company has direct shipment arrangements with various vendors to deliver products to its customers without having to physically hold the inventory at the Company's warehouses, thereby increasing efficiency and reducing costs. The Company recognizes revenue for direct shipment arrangements upon delivery to the customer with contract terms that typically specify FOB destination. The Company recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the customers, and assumes all the credit risk for the vendors with the customers. Therefore, the Company concluded it is the principal for these transactions.

Retail revenues from retail locations owned and operated by the Company and e-commerce revenues are recognized when the customer takes ownership of the products sold and assumes the risk of loss. The customer takes ownership and assumes risk of loss generally at the point of sale in our owned retail locations. The Company's e-commerce revenues come from Ace Hardware's website and sales from AEH. For e-commerce transactions, customers choose whether to have merchandise delivered to them (using third-party parcel delivery companies) or to collect their merchandise from one of our stores ("in-store pick up"). For items delivered directly to the customer, control passes and revenue is recognized when delivery has been completed to the customer, as title has passed and we have transferred possession to the customer. For in-store pick up, control passes and revenue is recognized once the customer has taken possession of the merchandise. Any fees charged to customers for delivery are a component of the transaction price and are recognized when delivery has been completed. Payment terms for retail and e-commerce sales are at the point of sale.

Service revenues (advertising activities, brand building initiatives and fees for other services provided primarily to domestic Retailers) are recognized when the service is complete as this is when the Retailer has the ability to direct the use of and obtain the benefits from the service.

The Company offers its Retailers various incentive programs which provide the Retailers with certain sales allowances. The Company offers these incentive programs in anticipation of future sales to the Retailers that participate in these programs. Since the sales allowances provide future economic benefit to the Company, they are capitalized in Other assets and amortized as a reduction of revenue on a straight-line basis over the period of expected future sales to these Retailers, which is generally five years.

Impact of New Accounting Standards

Recently issued accounting pronouncements that are not yet effective and that were not discussed below are either inapplicable to the Company or, if applicable, the Company does not expect that they will have a material impact on consolidated results of operations, consolidated financial condition, or consolidated cash flows.

New Accounting Pronouncements - Issued

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures". The amendments in this update eliminate the accounting guidance for TDRs by creditors and instead requires an evaluation of all receivable modifications under the Accounting Standards Codification Section 310 to determine whether a modification results in a new loan or a continuation of the existing loan. The amendments also provide enhanced disclosure requirements for certain loan refinancing and restructurings by creditors made to borrowers experiencing financial difficulty. In addition, the ASU requires disclosure of current-period gross write-offs by year of origination for financing receivables for public business entities. The amendments in this update are effective for the Company for year-end and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that this ASU along with ASU 2016-13 will have on the Company's consolidated financial statements.

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In November 2021, the FASB issued ASU No. 2021-09, “Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities”. Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. The guidance also requires a lessee to use the rate implicit in the lease if the rate is readily determinable, regardless of whether the lessee has elected the risk-free rate expedient. ASU 2021-09 is effective for the Company for year-end financial statements in fiscal 2022. The Company is evaluating the impact that ASU 2021-09 will have on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” along with amendments issued in 2018. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The amortized cost basis of financial assets should be reduced by expected credit losses to present the net carrying value in the financial statements at the amount expected to be collected. The measurement of expected credit losses is based on past events, historical experience, current conditions and forecasts that affect the collectability of the financial assets. Additionally, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 is effective for the Company for year-end financial statements and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that ASU 2016-13 will have on the Company’s consolidated financial statements.

(2) Acquisitions, Dispositions and Shutdown Activities

During the six months ended July 2, 2022, ARH acquired an additional retail store for consideration of \$1.0 million, prior to working capital adjustments. This acquisition resulted in ARH recording \$0.3 million of goodwill. During the six months ended July 3, 2021, ARH acquired additional retail stores for consideration of \$2.6 million, prior to working capital adjustments. These acquisitions resulted in ARH recording \$1.0 million of goodwill. Goodwill has an indefinite life and, therefore, is not amortized. The goodwill is expected to be deductible for tax purposes.

During the three months ended July 2, 2022, the Company determined that The Grommet business model was no longer viable and announced the shutdown of The Grommet. Business operations will cease during the third quarter of 2022. As a result of the closure, non-recurring charges of \$10.8 million were recorded during the second quarter of 2022, including a \$0.9 million charge for the write-down of inventory and a \$9.9 million charge for the impairment of assets and severance related costs.

During the six months ended July 2, 2022, the Company sold its Gainesville, Georgia retail support center (“RSC”) for proceeds of \$27.1 million and recorded a pre-tax gain of \$21.7 million which is presented in Other income, net in the Consolidated Statements of Income. The Company has leased-back this RSC on a short-term basis until construction of the replacement RSC in Jefferson, Georgia is complete.

On July 29, 2022, ASH acquired the assets of Legacy Plumbing, Inc. a provider of residential plumbing services.

(3) Leases

The Company leases certain warehouse and distribution space, office space, retail locations, equipment and vehicles under operating and finance leases. The Company determines if an arrangement is a lease at inception and recognizes a lease liability and right-of-use (“ROU”) asset in the Company’s Consolidated Balance Sheets upon commencement of a lease. Operating and finance lease assets represent the right to use an underlying asset for the lease term. Operating and finance lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at commencement date which is the date the Company takes possession or control of the property or equipment.

The future minimum undiscounted lease payments under operating leases were \$711.6 million and \$557.4 million as of July 2, 2022 and January 1, 2022, respectively. The future minimum undiscounted lease payments under finance leases were \$82.0 million and \$69.0 million as of July 2, 2022 and January 1, 2022, respectively.

During the six months ended July 2, 2022 the Company recorded \$158.3 million of operating ROU assets and \$20.0 million of finance ROU assets and associated new lease liabilities. The increase in operating ROU assets was primarily due to the addition of the

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replacement RSC in Jefferson, Georgia and a new RSC under construction in Visalia, California. The increase in finance ROU assets was primarily due to the replacement of expiring truck leases which are generally renewed every five to seven years.

Additionally, the Company has excluded approximately \$92.7 million of payments (undiscounted basis) for leases that have not yet commenced. These leases are expected to commence in the fourth quarter of 2022 with terms of up to sixteen years and will include a new corporate office lease in Oak Brook, Illinois that will replace the current corporate offices.

(4) Inventories

Inventories consist of wholesale merchandise inventories held for sale to customers and retail merchandise inventory held for resale at ARH retail locations and at AEH's warehouse. Substantially all of the Company's wholesale inventories are valued on the last-in, first-out ("LIFO") method. The excess of replacement cost over the LIFO value of inventory was \$205.3 million, \$172.5 million and \$114.8 million at July 2, 2022, January 1, 2022 and July 3, 2021, respectively. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation. Inventories at retail locations operated by ARH and at AEH's warehouses are valued at the lower of cost or net realizable value. Inventory cost is determined using the moving average method, which approximates the first-in, first-out ("FIFO") method. The Company regularly reviews its inventory and establishes a reserve for excess and obsolete inventory based on a number of factors, including historical sales, sales forecasts, obsolescence due to technology changes and defective goods. During the three months ended July 2, 2022, the Company announced the shutdown of The Grommet, which is owned by AEH. As a result, the Company recorded a \$0.9 million charge for the write-down of inventory at its AEH warehouse.

Inventories consisted of:

	July 2, 2022	January 1, 2022	July 3, 2021
Wholesale merchandise inventory (LIFO)	\$ 1,313.5	\$ 1,031.4	\$ 1,021.2
Retail merchandise inventory at ARH stores and the AEH warehouse (FIFO)	219.8	192.9	182.4
Inventories	\$ 1,533.3	\$ 1,224.3	\$ 1,203.6

(5) Debt

The Company has a \$700.0 million line of credit facility. The facility is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company's discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the London Interbank Offered Rate ("LIBOR") rate depending on the Company's leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at July 2, 2022. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum fixed charge coverage ratio. As of July 2, 2022, the Company was in compliance with its covenants and had \$191.8 million in borrowings outstanding under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of July 2, 2022, a total of \$15.8 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company's leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of July 2, 2022, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary has a \$125.0 million asset-based revolving credit facility ("Westlake Facility") that expires on August 3, 2026. The facility is expandable to \$150.0 million through a \$25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide a portion of the increased facility. Under this facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake's discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 to 50 basis points or LIBOR plus an applicable spread of 125 to 150 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at July 2, 2022.

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The Westlake Facility is collateralized by substantially all of Westlake's personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of July 2, 2022, ARH was in compliance with its covenants and had no borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to FASB Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," all borrowings under the Westlake Facility are classified as a Current maturity of long-term debt.

Total debt outstanding is comprised of the following:

	July 2, 2022	January 1, 2022	July 3, 2021
Revolving Credit Facility	\$ 191.8	\$ -	\$ 56.2
Westlake Facility	-	4.9	-
Installment notes with maturities through 2026 at a fixed rate of 6.00%	36.7	30.8	29.6
Total debt	228.5	35.7	85.8
Less: maturities within one year	(13.6)	(17.1)	(11.9)
Long-term debt	\$ 214.9	\$ 18.6	\$ 73.9

(6) Fair Value Measurements

The tables below set forth, by level, the Company's financial assets, liabilities and derivative instruments that were accounted for at fair value as of July 2, 2022, January 1, 2022 and July 3, 2021. The tables do not include cash on hand and also do not include assets and liabilities that are measured at historical cost or any basis other than fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. Long-term notes receivable approximate fair value because the Company charges its Retailers interest and a significant portion of the notes have the Company's stock as collateral.

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value			
	July 2, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 3.8	\$ 3.8	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	29.4	-	29.4	-
Mortgage-backed securities	7.3	-	7.3	-
U.S. government notes	9.9	9.3	0.6	-
Other	6.2	-	6.2	-
Total marketable securities	\$ 52.8	\$ 9.3	\$ 43.5	\$ -
Other assets:				
Money market funds	\$ 7.7	\$ 7.7	\$ -	\$ -
Fixed income mutual funds	3.0	3.0	-	-
Equity mutual funds	5.4	5.4	-	-
Total other assets	\$ 16.1	\$ 16.1	\$ -	\$ -

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Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value January 1, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 5.1	\$ 5.1	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	32.2	-	32.2	-
Mortgage-backed securities	8.8	-	8.8	-
U.S. government notes	10.4	9.6	0.8	-
Other	6.6	-	6.6	-
Total marketable securities	\$ 58.0	\$ 9.6	\$ 48.4	\$ -
Other assets:				
Money market funds	\$ 10.4	\$ 10.4	\$ -	\$ -
Fixed income mutual funds	2.3	2.3	-	-
Equity mutual funds	4.6	4.6	-	-
Total other assets	\$ 17.3	\$ 17.3	\$ -	\$ -

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value July 3, 2021	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 3.2	\$ 3.2	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	33.6	-	33.6	-
Mortgage-backed securities	7.8	-	7.8	-
U.S. government notes	20.0	11.8	8.2	-
Other	0.4	-	0.4	-
Total marketable securities	\$ 61.8	\$ 11.8	\$ 50.0	\$ -
Other assets:				
Money market funds	\$ 11.6	\$ 11.6	\$ -	\$ -
Fixed income mutual funds	1.9	1.9	-	-
Equity mutual funds	3.6	3.6	-	-
Total other assets	\$ 17.1	\$ 17.1	\$ -	\$ -

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Level 1 – Investments included in this category are the Company’s Fixed income mutual funds, Equity mutual funds, Money market funds and U.S. government notes. The Company’s valuation techniques used to measure the fair values of Level 1 investments are derived from quoted market prices for identical instruments, as active markets for these instruments exist. The Company has classified its investments used to support the Company’s deferred compensation plan as Other assets as these investments are restricted solely for this purpose.

Level 2 – Investments included in this category are the Company’s Corporate fixed income securities, Mortgage-backed securities, U.S. government notes and Other debt securities. Other debt securities primarily consist of taxable municipal bonds, corporate asset-backed securities, and U.S. Agency fixed rate notes and bonds. The Company’s valuation techniques used to measure the fair values of Level 2 securities are derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data.

The fair value of the Company’s debt and equity securities was below cost by \$5.7 million and exceeded their cost by \$2.1 million at July 2, 2022 and July 3, 2021, respectively. The realized and unrealized gains and losses on equity securities are recorded to Other income, net and the realized gain or loss on debt securities are recorded in the period in which the gain or loss occurs to Interest income in the Consolidated Statement of Income. Unrealized gains and losses on debt securities are recorded as a component of Other comprehensive income (loss), net of tax.

Gross proceeds from the sale of money market, debt and equity securities and the related realized gains and losses for the three and six months ended July 2, 2022 and July 3, 2021 were as follows:

	Three Months Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Gross proceeds	\$ 5.0	\$ 9.1	\$ 6.8	\$ 16.2
Gross realized gains	-	0.2	-	0.3
Gross realized losses	(0.4)	-	(0.4)	(0.1)

Gross realized gains and losses were determined using the specific identification method. For the six months ended July 2, 2022, the Company reclassified \$0.4 million of unrealized losses on the marketable securities that were recorded in AOCI as of January 1, 2022 into realized income. These amounts were recorded to Interest income in the Consolidated Statement of Income.

The following table summarizes the contractual maturity distributions of the Company’s debt securities at July 2, 2022. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

Fair value of available-for-sale debt securities	Due in One Year or Less	Due After One Year through Five Years	Due After Five Years through Ten Years	Due After Ten Years	Total
Corporate fixed income securities	\$ 4.4	\$ 11.0	\$ 8.5	\$ 5.5	\$ 29.4
Mortgage-backed securities	-	0.2	0.4	6.7	7.3
U.S. government notes	0.1	7.5	0.6	1.7	9.9
Other	0.5	1.5	1.6	2.6	6.2
Total	\$ 5.0	\$ 20.2	\$ 11.1	\$ 16.5	\$ 52.8

The Company’s debt instruments are recorded at cost on the Consolidated Balance Sheets. The fair value of the Company’s debt approximated its carrying value at July 2, 2022. The estimated fair value of long-term debt is based on estimated rates for similar instruments and discounted cash flow analysis using the Company’s weighted-average interest rate and is, therefore, classified as Level 3 within the fair value hierarchy.

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(7) Income Taxes

Income tax differs from the amount computed by applying the statutory U.S. Federal income tax rate of 21 percent to pre-tax income because of the effect of the following items:

	Three Months Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Expected tax at U.S. Federal income tax rate	\$ (27.0)	\$ (25.4)	\$ (53.2)	\$ (48.4)
Patronage distribution deductions	22.3	19.4	49.8	41.7
Other, net	1.2	0.9	(5.2)	(2.5)
Income tax expense	<u>\$ (3.5)</u>	<u>\$ (5.1)</u>	<u>\$ (8.6)</u>	<u>\$ (9.2)</u>

(8) Supplemental Disclosures of Cash Flow Information

During the six months ended July 2, 2022 and July 3, 2021, accrued patronage distributions of \$22.7 million and \$21.6 million, respectively, were offset against trade receivables and notes receivable owed to the Company by its member Retailers with no net impact in the Consolidated Statements of Cash Flows.

During the six months ended July 2, 2022 and July 3, 2021, non-cash repurchases of stock from Retailers of \$24.0 million and \$14.0 million, respectively, were offset against trade receivables of \$4.5 million and \$1.2 million, respectively, and notes receivable of \$7.5 million and \$5.2 million, respectively. The remaining \$12.0 million and \$7.6 million, respectively, were primarily issued as notes payable with no net impact in the Consolidated Statements of Cash Flows.

During the six months ended July 2, 2022 and July 3, 2021, the Company received \$7.2 million and \$5.8 million, respectively, of property and equipment prior to quarter end and accrued for these items as no cash payments were made. These capital expenditures were not included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the six months ended July 2, 2022 and July 3, 2021. During the six months ended July 2, 2022 and July 3, 2021, the Company paid \$7.8 million and \$9.4 million, respectively, for property and equipment that was purchased and accrued during the years ended January 1, 2022 and January 2, 2021. These capital expenditures were included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the six months ended July 2, 2022 and July 3, 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting the Company's consolidated operating results and financial condition during the three- and six-month periods ended July 2, 2022 and July 3, 2021. This discussion and analysis should be read in conjunction with the Company's 2021 Annual Report, as well as the consolidated financial statements (unaudited) and notes thereto contained in this report that have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Results of the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal and other factors.

Results of Operations

Comparison of the Three Months Ended July 2, 2022 to the Three Months Ended July 3, 2021

The following data summarizes the Company's performance in 2022 as compared to 2021 (in millions):

	2022		2021		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
Revenues:						
Wholesale revenues	2,275.0	89.8%	2,211.6	89.7%	63.4	2.9%
Retail revenues	258.0	10.2%	255.3	10.3%	2.7	1.1%
Total revenues	2,533.0	100.0%	2,466.9	100.0%	66.1	2.7%
Gross profit:						
Wholesale gross profit	287.3	12.6%	263.2	11.9%	24.1	9.2%
Retail gross profit	114.5	44.4%	113.7	44.5%	0.8	0.7%
Total gross profit	401.8	15.9%	376.9	15.3%	24.9	6.6%
Operating expenses:						
Wholesale operating expenses	187.9	8.3%	184.9	8.4%	(3.0)	(1.6%)
Retail operating expenses	81.1	31.4%	69.0	27.0%	(12.1)	(17.5%)
Retail pre-opening expenses	0.5	0.2%	1.1	0.4%	0.6	54.5%
Total operating expenses	269.5	10.7%	255.0	10.4%	(14.5)	(5.7%)
Operating income	132.3	5.2%	121.9	4.9%	10.4	8.5%
Interest expense	(4.4)	(0.2%)	(3.4)	(0.1%)	(1.0)	(29.4%)
Other expense, net	(3.0)	(0.1%)	(2.5)	(0.1%)	(0.5)	(20.0%)
Net income attributable to Ace Hardware Corporation	124.9	4.9%	116.0	4.7%	8.9	7.7%

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2021
2021 Revenues	\$ 2,466.9	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2021	68.6	2.8%
Revenues decrease from stores cancelled since January 2021	(14.2)	(0.6%)
Increase in wholesale merchandise revenues to comparable domestic stores	0.3	0.0%
Increase in wholesale service revenues	14.8	0.7%
Increase in AWH wholesale revenues	8.7	0.4%
Decrease in AIH wholesale revenues	(19.4)	(0.8%)
Increase in ARH retail revenues	3.7	0.2%
Decrease in AEH retail revenues	(1.0)	(0.1%)
Increase in Acehardware.com revenues	0.9	0.0%
Other revenue changes, net	3.7	0.1%
2022 Revenues	\$ 2,533.0	2.7%

Consolidated revenues for the three months ended July 2, 2022 totaled \$2.5 billion, an increase of \$66.1 million, or 2.7 percent, as compared to the prior year second quarter. Total wholesale revenues were \$2.3 billion for the second quarter 2022, an increase of \$63.4 million, or 2.9 percent, as compared to the prior year second quarter. Increases were seen across a majority of departments with outdoor power equipment, plumbing, paint and outdoor living showing the largest gains. New stores are defined as stores that were activated from January 2021 through June 2022. In 2022, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$68.6 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$14.2 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$54.4 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2021 and 2022. Wholesale merchandise revenues to comparable domestic stores increased \$0.3 million for the quarter. All of this increase was the result of estimated wholesale price inflation of 12.0 percent.

The number of the Company's worldwide Ace retail outlets is summarized as follows:

	Three Months Ended	
	July 2, 2022	July 3, 2021
Retail outlets at beginning of period	5,626	5,498
New retail outlets added	46	61
Retail outlet cancellations	(12)	(9)
Retail outlets at end of period	5,660	5,550

Ace Wholesale Holdings LLC ("AWH") revenues were \$129.0 million during the three months ended July 2, 2022, representing an \$8.7 million increase in wholesale revenues from the second quarter of 2021.

Ace Hardware International Holdings, Ltd. ("AIH") revenues were \$54.4 million during the three months ended July 2, 2022, representing a \$19.4 million decrease in wholesale revenues from the second quarter of 2021. This decrease was primarily the result of a decline in sales to AIH's largest customer.

Total retail revenues for the quarter were \$258.0 million, an increase of \$2.7 million, or 1.1 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$252.4 million in the second quarter of 2022, an increase of \$3.7 million, or 1.5 percent, from the second quarter of 2021. This increase was driven by new stores added by the Westlake Ace Hardware ("Westlake") and the Great Lakes Ace Hardware Inc. ("GLA") retail chains since the second quarter of 2021. Westlake and GLA together operated 215 stores at the end of the second quarter of 2022 compared to 211 stores at the end of the second quarter of 2021. Inflation drove same-store-sales increases of 0.2 percent at Westlake and 0.4 percent at GLA during the quarter. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$5.6 million in the second quarter of 2021, a decrease of \$1.0 million, or 15.2 percent.

Wholesale gross profit for the three months ended July 2, 2022 was \$287.3 million, an increase of \$24.1 million from the second quarter of 2021. The wholesale gross margin percentage was 12.6 percent of wholesale revenues in the second quarter of 2022, up from 11.9 percent in the second quarter of 2021. The increase in wholesale gross margin percentage was primarily due to an increase in vendor funds earned, and the absence of personal protective equipment inventory write-downs recorded in the second quarter of 2021. These improvements were partially offset by an increase in LIFO expense which was driven by increased vendor prices due to inflation.

Retail gross profit for the three months ended July 2, 2022 was \$114.5 million, an increase of \$0.8 million from the second quarter of 2021. The retail gross margin percentage was 44.4 percent of retail revenues in the second quarter of 2022, down slightly from 44.5 percent in the second quarter of 2021. Retail gross margin includes a \$0.9 million charge for inventory write-downs at The Grommet. Excluding this charge, the retail gross margin percentage is 44.7 percent. For ARH, retail gross profit is based on the Company's wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased \$3.0 million, or 1.6 percent, from the second quarter of 2021. The increase is due to greater lease expense driven by the expansion of our warehouse space and increased advertising expenses. Wholesale operating expenses as a percent of wholesale revenues decreased slightly to 8.3 percent in the second quarter of 2022 from 8.4 percent in the second quarter of 2021.

Retail operating expenses increased \$12.1 million, or 17.5 percent, from the second quarter of 2021. Included in this increase is a non-recurring charge of \$9.9 million related to the closure of The Grommet, for the impairment of assets and severance related costs. The remaining increase was driven by an increase in store payroll along with expenses incurred related to the new stores opened since the second quarter of 2021. Retail operating expenses as a percent of retail revenue increased to 31.4 percent in the second quarter of 2022 from 27.0 percent in the second quarter of 2021. Without the non-recurring charge, retail operating expenses as a percent of retail revenue were 27.6 percent.

Comparison of the Six Months Ended July 2, 2022 to the Six Months Ended July 3, 2021

The following data summarizes the Company's performance in 2022 as compared to 2021 (in millions):

	2022		2021		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
Revenues:						
Wholesale revenues	4,332.0	91.3%	4,080.7	90.7%	251.3	6.2%
Retail revenues	414.6	8.7%	418.0	9.3%	(3.4)	(0.8%)
Total revenues	4,746.6	100.0%	4,498.7	100.0%	247.9	5.5%
Gross profit:						
Wholesale gross profit	549.3	12.7%	506.8	12.4%	42.5	8.4%
Retail gross profit	187.5	45.2%	189.8	45.4%	(2.3)	(1.2%)
Total gross profit	736.8	15.5%	696.6	15.5%	40.2	5.8%
Operating expenses:						
Wholesale operating expenses	349.3	8.1%	330.5	8.1%	(18.8)	(5.7%)
Retail operating expenses	148.9	35.9%	130.7	31.3%	(18.2)	(13.9%)
Retail pre-opening expenses	0.7	0.2%	1.7	0.4%	1.0	58.8%
Total operating expenses	498.9	10.5%	462.9	10.3%	(36.0)	(7.8%)
Operating income	237.9	5.0%	233.7	5.2%	4.2	1.8%
Interest expense	(8.4)	(0.1%)	(7.4)	(0.2%)	(1.0)	(13.5%)
Other income (expense), net	15.5	0.3%	(4.8)	(0.1%)	20.3	422.9%
Net income attributable to Ace Hardware Corporation	245.0	5.2%	221.5	4.9%	23.5	10.6%

*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2021
2021 Revenues	\$ 4,498.7	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2021	125.9	2.8%
Revenues decrease from stores cancelled since January 2021	(26.8)	(0.6%)
Increase in wholesale merchandise revenues to comparable domestic stores	136.9	3.0%
Increase in wholesale service revenues	32.2	0.8%
Increase in AWH wholesale revenues	22.5	0.5%
Decrease in AIH wholesale revenues	(29.7)	(0.6%)
Decrease in ARH retail revenues	(0.4)	(0.0%)
Decrease in AEH retail revenues	(3.0)	(0.1%)
Decrease in Acehardware.com revenues	(6.8)	(0.2%)
Other revenue changes, net	(2.9)	(0.1%)
2022 Revenues	\$ 4,746.6	5.5%

Consolidated revenues for the six months ended July 2, 2022 totaled \$4.7 billion, an increase of \$247.9 million, or 5.5 percent, as compared to the prior year. Total wholesale revenues were \$4.3 billion, an increase of \$251.3 million, or 6.2 percent, as compared to the prior year. Increases were seen across a majority of departments with outdoor power equipment, plumbing, paint and outdoor living showing the largest gains. New stores are defined as stores that were activated from January 2021 through June 2022. During the six months ended July 2, 2022, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$125.9 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$26.8 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$99.1 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2021 and 2022. Wholesale merchandise revenues to comparable domestic stores increased \$136.9 million compared to the prior year. All of this increase was the result of estimated wholesale price inflation of 12.5 percent.

The number of the Company's worldwide Ace retail outlets is summarized as follows:

	Six Months Ended	
	July 2, 2022	July 3, 2021
Retailer outlets at beginning of period	5,583	5,463
New retailer outlets added	100	112
Retailer outlet cancellations	(23)	(25)
Retailer outlets at end of period	5,660	5,550

AWH revenues were \$246.7 million during the six months ended July 2, 2022, representing a \$22.5 million increase in wholesale revenue from the prior year.

AIH revenues were \$108.0 million during the six months ended July 2, 2022, representing a \$29.7 million decrease in wholesale revenue from the prior year. This decrease was primarily the result of a decline in sales to AIH's largest customer.

Total retail revenues for the six months ended July 2, 2022, were \$414.6 million, a decrease of \$3.4 million, or 0.8 percent, as compared to the prior year. Retail revenues from ARH were \$405.4 million during the six months ended July 2, 2022. This is a decrease of \$0.4 million from the prior year. Westlake experienced a 2.2 percent decrease in same-store-sales while GLA experienced a 2.0 percent decrease in same-store-sales during the six months ended July 2, 2022. The new stores opened by Westlake and GLA since the second quarter of 2021, contributed \$9.0 million of incremental revenues, partially offsetting the decrease in same-store-sales. Retail revenues from AEH were \$9.2 million during the six months ended July 2, 2022. This was a decrease of \$3.0 million from the prior year.

Wholesale gross profit for the first six months of 2022 was \$549.3 million, an increase of \$42.5 million from the first six months of 2021. The wholesale gross margin percentage was 12.7 percent of wholesale revenues for the six-month period ending July 2, 2022, up from 12.4 percent for the period ended July 3, 2021. The increase in wholesale gross margin percentage was primarily due to an increase in vendor funds earned, the absence of personal protective equipment inventory write-downs recorded in 2021, increased delivery revenue and lower third-party delivery costs. These improvements were partially offset by an increase in LIFO expense which was driven by increased vendor prices due to inflation.

Retail gross profit for the six months ended July 2, 2022 was \$187.5 million, a decrease of \$2.3 million from the six months ended July 3, 2021. Retail gross margin percentage was 45.2 percent of retail revenues for the six-month period ending July 2, 2022 in 2022, down from 45.4 percent for the period ended July 3, 2021. The decrease in retail gross margin percentage was primarily due to a decrease in vendor funds earned related to new store openings and a \$0.9 million charge for inventory write-downs at The Grommet. Excluding this charge, the retail gross margin percentage is 45.4 percent. For ARH, retail gross profit as reported in the Ace financial statements is based on the Ace wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased \$18.8 million, or 5.7 percent, in the six months ended July 2, 2022 as compared to the six months ended July 3, 2021. The increase is due to higher distribution costs resulting from higher warehouse wage rates and lower productivity, greater lease expense driven by the expansion of our warehouse space and increased travel expense. As a percentage of wholesale revenues, wholesale operating expenses was unchanged at 8.1 percent of wholesale revenues in both 2022 and 2021.

Retail operating expenses increased \$18.2 million, or 13.9 percent, in the six months ended July 2, 2022 as compared to the six months ended July 3, 2021. Included in this increase is a non-recurring charge of \$9.9 million related to the closure of The Grommet, for the impairment of assets and severance related costs. The remaining increase was driven by an increase in store payroll along with expenses incurred related to the new stores opened since the second quarter of 2021. Retail operating expenses as a percentage of retail revenue increased to 35.9 percent of retail revenues in the first six months of 2022 from 31.3 percent in the first six months of 2021. Without the non-recurring charge, retail operating expenses as a percent of retail revenue is 33.5 percent.

Retail pre-opening expenses decreased \$1.0 million in the six months ended July 2, 2022, due to expenses related to the new stores Westlake opened in 2021.

Other income (expense), net increased \$20.3 million compared to the six months ended July 3, 2021 as a result of the \$21.7 million gain on sale of the Company's retail support center ("RSC") located in Gainesville, Georgia.

Liquidity and Capital Resources

The Company believes that existing cash balances, along with the existing lines of credit and long-term financing, will be sufficient to finance the Company's working capital requirements, debt service, patronage distributions, capital expenditures, share redemptions from cancellations and growth initiatives for at least the next 12 months.

The Company's borrowing requirements have historically arisen from, and are expected to continue to arise from, seasonal working capital needs, debt service, capital improvements and acquisitions, patronage distributions and other general corporate purposes. In the past, the Company has met its operational cash needs using cash flows from operating activities and funds from its revolving credit facilities. The Company currently estimates that its cash flows from operating activities and working capital, together with its lines of credit, will be sufficient to fund its short-term liquidity needs. Actual liquidity and capital funding requirements depend on numerous factors, including operating results, general economic conditions and the cost of capital.

The Company has a \$700.0 million line of credit facility that is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company's discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the London Interbank Offered Rate ("LIBOR") depending on the Company's leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at July 2, 2022. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum fixed charge coverage ratio. As of July 2, 2022, the Company was in compliance with its covenants and had \$191.8 million in borrowings outstanding under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of July 2, 2022, a total of \$15.8 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company's leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of July 2, 2022, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary has a \$125.0 million asset-based revolving credit facility ("Westlake Facility") that expires on August 3, 2026. The facility is expandable to \$150.0 million through a \$25.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide a portion of the increased facility. Under this facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake's discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 to 50 basis points or LIBOR plus an applicable spread of 125 to 150 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at July 2, 2022.

The Westlake Facility is collateralized by substantially all of Westlake's personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of July 2, 2022, ARH was in compliance with its covenants and had no borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to Financial Accounting Standards Board Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," all borrowings under the Westlake Facility are classified as a Current maturity of long-term debt.

Total debt, the majority of which is comprised of the \$191.8 million borrowed on lines of credit, was \$228.5 million as of July 2, 2022, compared to \$35.7 million and \$85.8 million as of January 1, 2022 and July 3, 2021, respectively.

Cash Flows

The Company had \$48.8 million and \$51.7 million of cash and cash equivalents at July 2, 2022 and July 3, 2021, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for the first six months of 2022 and 2021, respectively (in millions):

	2022	2021
Cash provided by operating activities before changes in assets and liabilities	\$ 283.5	\$ 262.3
Net changes in assets and liabilities	(264.0)	(45.0)
Net cash provided by operating activities	19.5	217.3
Net cash used in investing activities	(29.6)	(78.7)
Net cash provided by (used in) financing activities	21.3	(115.8)
Net change in cash and cash equivalents	\$ 11.2	\$ 22.8

The Company's operating activities provided \$19.5 million of cash during the first six months of 2022 compared to \$217.3 million provided in 2021. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities increased from \$262.3 million in the first six months of 2021 to \$283.5 million in the first six months of 2022. This \$21.2 million increase was primarily the result of the \$23.2 million increase in net income for the first six months of 2022 compared to the first six months of 2021.

The net change in assets and liabilities used \$264.0 million of cash in the first six months of 2022 compared to the use of \$45.0 million in the first six months of 2021. Accounts receivable and inventories increased \$636.6 million during the first six months of 2022 compared to an increase of \$315.2 million during the first six months of 2021. The increases were due to inflation, an overstock of patio and lawn and garden inventory due to the late arrival of spring weather in 2022 and higher sales volume. Accounts payable and accrued expenses increased \$365.7 million during the first six months of 2022 compared to an increase of \$269.5 million during the first six months of 2021, partially offsetting the combined increases in accounts receivable and inventories.

Net cash used in investing activities was \$29.6 million in the first six months of 2022 compared to \$78.7 million in the first six months of 2021. Investing activities in 2022 primarily consisted of \$45.5 million in capital expenditures, partially offset by \$28.3 million of cash proceeds from the sale of assets, which included the sale of the Gainesville RSC. Investing activities in 2021 primarily consisted of \$51.7 million in capital expenditures and \$32.3 million of purchases of investment securities, a portion of which was used to support the Company's deferred compensation plan.

Net cash provided by financing activities was \$21.3 million in the first six months of 2022 compared to the use of \$115.8 million in the first six months of 2021. During 2022, the Company had \$186.9 million of borrowings under its revolving credit facilities, paid \$121.0 million for the cash portion of the 2021 patronage distribution, paid \$25.9 million on patronage refund certificates, made payments on long-term debt of \$6.1 million and made principal payments on finance leases of \$8.3 million. During 2021, the Company had \$28.2 million of borrowings under its revolving credit facilities, paid \$113.8 million for the cash portion of the 2020 patronage distribution, paid \$16.9 million on patronage refund certificates, and made payments on long-term debt of \$6.6 million.

Contractual Obligations and Commitments

For the six months ended July 2, 2022, there have been no significant changes to the Company's contractual obligations and commitments as disclosed in its 2021 Annual Report.

Critical Accounting Policies and Estimates

For a description of the Company's critical accounting policies and estimates, please see the Application of Critical Accounting Policies and Estimates section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2021 Annual Report.

Qualitative and Quantitative Disclosure About Market Risk

The Company is exposed to market risk in the normal course of its business operations, including the risk of loss from inflation and changes in price, foreign currency, interest rates and customer credit risk.

There has been no material change in the Company's exposure to market risk from what was disclosed in the 2021 Annual Report.

Certain Other Risks

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus a global pandemic. The pandemic continues to have a significant effect on overall economic conditions and the preventative and protective measures taken by governments throughout the world are resulting in global business disruptions, including the Company's customers and vendors. While the impact of the pandemic is expected to be temporary, there is uncertainty around the severity and duration of the disruption. Although the

Company continues to see increases in revenues, the possibility still exists that the pandemic may negatively affect its future operating results, financial position and cash flow. However, the financial impacts cannot be reasonably estimated at this time. The Company is monitoring its working capital, including its accounts receivable and inventory, closely for signs of deterioration due to late payments, bad debts and reduced demand.

The Company continues to monitor its operations and government recommendations and has made modifications to its normal operations because of the pandemic. These modifications vary by location depending on local conditions and government mandates. While the measures the Company has taken serve to reduce the possibility of transmission of the virus within its workplaces, they do not assure that the Company's employees will not contract the virus or bring it into the workplace. If the Company were forced to close any of its warehouses for an extended period of time, the Company's operations would be significantly disrupted resulting in a material adverse effect on the Company's business, financial condition, results of operations and liquidity.

The Company relies extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage and protect transactions and data. In managing the business, the Company also relies heavily on the integrity of, security of and consistent access to this data for information such as customer data, merchandise planning and inventory replenishment, supplier purchases, sales to Retailers, warehousing, distribution, inventory control, and various corporate-level financial and other functions including communication with the Retailers. The Company's systems and the systems managed by third parties are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches or cyber-attacks. Although the Company and the third-party service providers seek to maintain the Company's respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. If the Company's or our service providers' systems are damaged, breached or cease to function properly, this could significantly disrupt the Company's operations and be costly, time consuming and resource-intensive to remedy.

The Company and its third-party system providers receive, collect and store personally identifiable, confidential, proprietary and other information from our vendors, customers and employees so that they may, among other things, purchase products or services and enroll in promotional programs. Any breach of the Company's or its third-party system providers' security could result in significant costs to protect any customers, vendors, employees, and other parties whose personal data is compromised. Loss of customer, supplier, employee or other business information could disrupt operations, damage the Company's reputation and expose the Company to claims from customers, vendors, financial institutions, regulators, payment card associations, employees and others, any of which could have a material adverse effect on the Company, its financial condition and results of operations.

The U.S. economy is experiencing a significant increase in inflation as the prices of raw materials and freight have negatively impacted the costs the Company pays to acquire products. The Company attempts to offset the effect of increased costs by passing along cost increases to the Company's customers. If these increases cannot be passed to our customers, our financial condition, results of operations, liquidity, and cash flows may be negatively affected.

The Company continues to monitor these market forces and risks but cannot reasonably predict the long-term impacts of these evolving developments.

Disclosure Regarding Forward-Looking Statements

This document includes certain forward-looking statements about the expectations of the Company. Although the Company believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Such forward-looking statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "planned," "potential," "should," "will," "would," "project," "estimate," "ultimate," or similar phrases. Actual results may differ materially from those indicated in the Company's forward-looking statements and undue reliance should not be placed on such statements.

Factors that could cause materially different results include, but are not limited to, weather conditions, natural disasters, civil unrest; pandemics; and acts of terrorism; fair value accounting adjustments; inventory valuation; health care costs; insurance costs or recoveries; legal costs; borrowing needs; interest rate increases and changes in the method of determining London Interbank ("LIBOR") or the replacement of LIBOR with an alternate reference rate; credit conditions; economic and market conditions; increases in fuel costs; accidents, leaks, equipment failures, ransomware attacks, cybersecurity incidents, technology disruptions and other operating risks; legislative actions; change in tax laws and tax rulings or audit results; asset sales; effective integration of acquired businesses; significant unplanned capital needs; changes in accounting principles, interpretations, methods, judgments or estimates; performance of major customers; reliance on third-party transporters, suppliers and contractors and interruption of product supply or increases in product costs; labor relations, increased labor costs and continued access to qualified labor.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this report.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements presented in this Quarterly Report have been prepared with integrity and objectivity and are the responsibility of the management of Ace Hardware Corporation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the internal and external auditors. In addition, the Company has distributed to employees its policies for conducting business affairs in a lawful and ethical manner.

The Audit Committee of the Board of Directors meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal control and financial reporting matters. The Audit Committee recommends to the full Board of Directors the selection of the independent auditors and regularly reviews the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.

August 23, 2022

/s/ John Venhuizen

John Venhuizen
President and Chief Executive Officer

/s/ William M. Guzik

William M. Guzik
Executive Vice President,
Chief Financial Officer and Chief Risk Officer

/s/ Steven G. Locanto

Steven G. Locanto
Vice President, Controller

GUARANTEE OF ACE HARDWARE CORPORATION

Guaranty of Performance

For value received, Ace Hardware Corporation, a Delaware corporation (the "Guarantor"), located at 2200 Kensington Court, Oak Brook, Illinois 60523-2103, absolutely and unconditionally guarantees to assume the duties and obligations of Ace Painting Franchising, LLC, a Delaware limited liability company, located at 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228 (the "Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2022 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee through its duly authorized officer at Oak Brook, Illinois on this 26th day of October, 2022.

ACE HARDWARE CORPORATION

By: 

Name: William M. Guzik

Title: Executive Vice President, Chief Financial Officer and Chief Risk Officer

ATTACHMENT K
LIST OF STATE FRANCHISE ADMINISTRATORS
AND AGENTS FOR SERVICE OF PROCESS

**LIST OF STATE FRANCHISE ADMINISTRATORS
AND AGENTS FOR SERVICE OF PROCESS**

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
COLORADO	None	Corporation Service Company 1900 W. Littleton Boulevard Littleton, Colorado 80120
DELAWARE	None	Corporation Service Company 251 Little Falls Drive Wilmington, Delaware 19808
FLORIDA	Florida Department of Agriculture and Consumer Services Division of Consumer Services Attn: Finance & Accounting 407 South Calhoun Street Tallahassee, Florida 32399-0800 (850) 410-3800	None
ILLINOIS	Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	Illinois Attorney General Same Address
INDIANA	Indiana Secretary of State Division of Securities 302 West Washington Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531
IOWA	Iowa Secretary of State 321 E. 12 th Street Des Moines, Iowa 50319 (515) 281-5204	Same
MICHIGAN	Michigan Attorney General Franchise Section - Consumer Protection Division G. Mennen Williams Building, 1st Floor 525 W. Ottawa Street Lansing, Michigan 48933 P.O. Box 30213 Lansing, Michigan 48909 (517) 373-7117	Michigan Department of Commerce Same Address
NEBRASKA	Department of Banking and Finance 1526 K Street, Suite 300 Lincoln, Nebraska 68508-2732 P.O. Box 95006 Lincoln, Nebraska 68509-5006 (402) 471-3445	None
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505 (701) 328-4712	North Dakota Securities Commissioner Same

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
OREGON	Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building 350 Winter Street NE, Room 410 Salem, Oregon 97301-3881 (503) 378-4140	Director of Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building 350 Winter Street NE, Room 410 Salem, Oregon 97301-3881 (503) 378-4140
RHODE ISLAND	State of Rhode Island and Providence Plantations Department of Business Regulation Securities Division 1511 Pontiac Avenue John O. Pastore Complex - Building 69-1 Cranston, Rhode Island 02920 (401) 462-9500	Director of Rhode Island Department of Business Regulation Same Address
SOUTH DAKOTA	South Dakota Division of Insurance Securities Regulation 124 S Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563	Director of South Dakota Division of Insurance Same Address
TEXAS	Secretary of State Statutory Documents Section James E. Rudder Building 1019 Brazos Street Austin, Texas 78701 P.O. Box 13550 Austin, Texas 78711 (512) 463-5705	None
UTAH	Utah Department of Commerce Consumer Protection Division 160 East 300 South, 2 nd Floor Salt Lake City, UT 84114 801-530-6601	Same
WISCONSIN	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 P.O. Box 1768 Madison, Wisconsin 53701-1768 (608) 266-8557	Administrator, Division of Securities Same Address

If a state is not listed, we have not appointed an agent for service of process in that state in connection with the requirements of franchise laws. There may be states in addition to those listed above in which we have appointed an agent for service of process.

There may also be additional agents appointed in some of the states listed.

ATTACHMENT L

STATE SPECIFIC ADDENDUM TO DISCLOSURE DOCUMENT

**STATE LAW ADDENDA TO THE
ACE PAINTING FRANCHISING, LLC DISCLOSURE DOCUMENT**

The following modifications are to the Ace Painting Franchising, LLC Franchise Disclosure Document for the states noted below.

ILLINOIS

1. Illinois law governs the Franchise Agreement.
2. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
3. Your rights upon termination and non-renewal are set forth in Articles 19 and 20 of the Illinois Franchise Disclosure Act.
4. In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

INDIANA

The following modifications are made to the Disclosure Document only to the extent required by the Indiana Franchises Act, IND. CODE § 23-2-2.5, and the Indiana Deceptive Franchise Practices Act, IND. CODE § 23-2-2.7:

1. The following statement is added to Item 12:

Indiana law prohibits us from establishing a Franchisor-owned outlet engaged in a substantially identical business within your Territory that competes unfairly with you within a reasonable area.

2. The Summary column of Items 17.r and 17.w in the Chart in Item 17 are deleted and replaced by the following:

17.r: No involvement in a competitive business for 2 years within your Territory.

17.w: Except to the extent governed by federal law, disputes related to a violation of the Indiana Franchises Act or the Indiana Deceptive Franchise Practices Act shall be governed by those laws, and all other matters regarding the Franchise Agreement shall be governed by Federal and Colorado law. The Colorado Consumer Protection Act does not apply.

The changes to Item 17.w have been included in this Disclosure Document as a condition to registration. We and you do not agree with the above language and believe that each of the provisions of the Franchise Agreement, including all choice-of-law and venue provisions, are fully enforceable. We and you intend to fully enforce all of the provisions of the Franchise Agreement and all other documents signed by us, including but not limited to, all choice-of-law, venue, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

NORTH DAKOTA

1. The North Dakota Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees:

A. Restrictive Covenants: Franchise Disclosure Documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.

B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.

C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.

D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.

E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.

F. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.

G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.

H. General Release: Franchise agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.

I. Limitation of Claims: Franchise agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.

RHODE ISLAND

1. The following paragraph is added at the end of Item 17:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act." The preceding language has been included in this Disclosure Document as a condition to registration. Franchisor and Franchisee do not agree with the above language and believe that each of the provisions of the Franchise Agreement, including all choice of law provisions, are fully enforceable. Franchisor and Franchisee intend to fully enforce all of the provisions of the Franchise Agreement and all other

documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

WISCONSIN

REGISTRATION OF THIS FRANCHISE IN THE STATE OF WISCONSIN DOES NOT MEAN THAT THE STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

The conditions under which the Franchise Agreement can be terminated or not renewed may be affected by the Wisconsin Fair Dealership Law, Wisconsin Statutes 1981-82, Title XIV-A, Chapter 135.

ATTACHMENT M

APF DATA COLLECTION AGREEMENT

APF DATA COLLECTION AGREEMENT

By execution of this Data Collection Agreement (the “Agreement”), Ace Painting Franchising, LLC (“APF”), with offices located at 12567 West Cedar Drive, Suite 200, Lakewood, Colorado 80228, and the undersigned Ace Hardware Painting Services Business Franchisee (“Franchisee”, and together with APF, the “Parties”) agree as follows:

- 1. Services and Data.** APF agrees to collect from Franchisee, and Franchisee agrees to share with APF, data related to Franchisee’s Ace Hardware Painting Services business operations, including, but not limited to customer data (collectively, the “Data”) which APF may use for the betterment of the business of APF and the business of its parents and affiliates, and its Franchisees, including, but not limited to, for purposes of advertising, analytics, compliance, and operations. These uses and the sharing of Data will be collectively referred to herein as the “Services”. For the purposes of this Agreement, Franchisee’s Ace Hardware Painting Services business operations shall include any of the Franchisee’s territories.
- 2. Data Collection:**
 - a) Franchisee agrees that APF may collect Data as needed.
 - b) The frequency and timing of Data collection is subject to change at any time by APF without notice at its discretion.
 - c) A third-party agent may be used to collect and store Data from Franchisee.
- 3. Mutual Data Privacy.** To the extent the provision of Services hereunder involves the Processing of Personal Information (as such terms are defined below) on Franchisee’s or APF’s behalf, the Parties have agreed to enter into and to be bound by this Agreement to ensure compliance with applicable privacy laws.
- 4. Definitions:**
 - a) “Personal Information” means information that identifies, relates to, describes, is capable of being associated with, or could reasonably be linked, directly or indirectly, with a particular consumer, household, or device. For the avoidance of doubt, Personal Information includes, but not limited to, name, mailing address, email address, phone number, and purchase history.
 - b) “Process” or “Processing” means any operation or set of operations that are performed on Personal Information or on sets of Personal Information (including, but not limited to, retaining, using, disclosing, accessing, storing, or creating derivative works therefrom), regardless of whether by automated means.
- 5. Processing of Personal Information.** The Parties shall only Process Personal Information for the purpose of providing the Services. The Parties shall not retain, use, or disclose Personal Information for any purpose (including, but not limited to, any commercial purpose) other than to perform the Services. If requested by a Party, the other Party agrees it will not sell, rent, release, disclose, disseminate, make available, transfer or otherwise communicate Personal Information related to a particular individual, household or device to any third party for monetary or other valuable consideration.
- 6. Consumer Requests.** If a Party receives a request from an individual to take certain actions related to that individual’s Personal Information collected by said Party, such as, but not limited to delete, stop selling or return said individual’s Personal Information (a “Consumer Rights Request”), the Party receiving said Consumer Rights Request agrees to respond to it in accordance with applicable law. If

a Party requests the other Party also comply with said Consumer Rights Request, the other Party agrees it will also respond to said request in accordance with applicable law. In addition, if a Party requests information from the other Party to help it comply with a Consumer Rights Request, such as, but not limited to, asking for the details relating to such Consumer Rights Request, the other Party will respond to such request, in writing, within five (5) calendar days of receipt of said request, which response may include, as applicable, a copy of said individual's Personal Information Processed by such Party. In response to a Consumer Rights Request to delete an individual's Personal Information, each Party agrees to securely and permanently erase and delete all copies of Personal Information Processed. If requested, written certification of compliance with this Section 6 shall be promptly returned to the requesting Party.

7. **Disclaimer.** NEITHER PARTY, NOR ANY THIRD PARTY SERVICE PROVIDER OR CONTRACTOR OF APF, WILL BE LIABLE TO THE OTHER PARTY FOR ANY DIRECT, SPECIAL, EXEMPLARY, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH THE PERFORMANCE OF ITS OBLIGATIONS ARISING FROM OR UNDER THIS AGREEMENT.
8. **Amendment.** This Agreement may be amended by APF upon ten (10) days prior written notice to Franchisee. This Agreement supersedes any prior written agreements between the parties relating to the Data Collection Agreement.
9. **Compliance with Laws.** Each party shall comply with all statutes, laws and regulations applicable to the Processing of Personal Information hereunder.
10. **Certification.** By executing this Agreement, Franchisee and APF each certify it understands the restrictions on the Processing of Personal Information as set forth in this Agreement.

SIGNATURE PAGE TO FOLLOW

APF:

ACE PAINTING FRANCHISING, LLC,
a Delaware limited liability company

By: _____
Date: _____

FRANCHISEE:

IF AN INDIVIDUAL:

Signature

Print Name: _____

**IF A PARTNERSHIP, LIMITED LIABILITY
COMPANY, CORPORATION, OR OTHER
ENTITY:**

Print Company Name

By: _____
Signature
Print Name and Title: _____

By: _____
Signature
Print Name and Title: _____

Date: _____

State Effective Dates

The following states have franchise laws that 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 document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	NOT EFFECTIVE
Hawaii	NOT EFFECTIVE
Illinois	PENDING
Indiana	PENDING
Maryland	NOT EFFECTIVE
Michigan	PENDING
Minnesota	NOT EFFECTIVE
New York	NOT EFFECTIVE
North Dakota	PENDING
Rhode Island	PENDING
South Dakota	PENDING
Virginia	NOT EFFECTIVE
Washington	NOT EFFECTIVE
Wisconsin	PENDING

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

RECEIPT

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Ace Painting Franchising, LLC (“APF”) offers you a franchise, it must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor, or an affiliate, in connection with the proposed franchise sale.

New York requires that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration, whichever occurs first.

Michigan requires that we give you this Disclosure Document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

Iowa requires that we give you this Disclosure Document at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If APF 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 appropriate state agency identified on Attachment K.

APF authorizes the parties identified on Attachment K to receive service of process for APF in the particular state.

The following Franchise Sellers were involved in the offering of this franchise:

The following employee(s) of APF, having a principal business address and telephone number the same as APF: Andrew J. Bell, Cameron Loughlin, Colette Bell, Nicole Carson, Maria Hargett, Aaron Slattery, and

The following independent sales agent (APF requests that prospective franchisee fill in the information, if known): _____, having a principal business address at: _____, telephone number: _____.

Issuance Date: October 28, 2022.

I received a Disclosure Document dated October 28, 2022, that included the following Attachments: Franchise Agreement with Exhibits (Attachment A); Nondisclosure and Noncompetition Agreement (Attachment B); Statement of Prospective Franchisee (Attachment C); Multi-Territory Addendum to Franchise Agreements (Attachment D); RESERVED FOR FUTURE USE (Attachment E); Current Form of General Release (Attachment F); Operations Manual Table of Contents (Attachment G); List of Franchisees (Attachment H); List of Franchisees Who Have Left The System (Attachment I); Financial Statements (Attachment J); List of State Franchise Administrators and Agents for Service of Process (Attachment K); State Addendum to Disclosure Document (Attachment L); and APF Data Collection Agreement (Attachment M).

PROSPECTIVE FRANCHISEE

Signature: _____

Print Name: _____

Date: _____

RECEIPT

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Ace Painting Franchising, LLC ("APF") offers you a franchise, it must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor, or an affiliate, in connection with the proposed franchise sale.

New York requires that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration, whichever occurs first.

Michigan requires that we give you this Disclosure Document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

Iowa requires that we give you this Disclosure Document at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If APF 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 appropriate state agency identified on Attachment K.

APF authorizes the parties identified on Attachment K to receive service of process for APF in the particular state.

The following Franchise Sellers were involved in the offering of this franchise:

The following employee(s) of APF, having a principal business address and telephone number the same as APF: Andrew J. Bell, Cameron Loughlin, Colette Bell, Nicole Carson, Maria Hargett, Aaron Slattery, and

_____.

The following independent sales agent (APF requests that prospective franchisee fill in the information, if known): _____, having a principal business address at: _____, telephone number: _____.

Issuance Date: October 28, 2022.

I received a Disclosure Document dated October 28, 2022, that included the following Attachments: Franchise Agreement with Exhibits (Attachment A); Nondisclosure and Noncompetition Agreement (Attachment B); Statement of Prospective Franchisee (Attachment C); Multi-Territory Addendum to Franchise Agreements (Attachment D); RESERVED FOR FUTURE USE (Attachment E); Current Form of General Release (Attachment F); Operations Manual Table of Contents (Attachment G); List of Franchisees (Attachment H); List of Franchisees Who Have Left The System (Attachment I); Financial Statements (Attachment J); List of State Franchise Administrators and Agents for Service of Process (Attachment K); State Addendum to Disclosure Document (Attachment L); and APF Data Collection Agreement (Attachment M).

PROSPECTIVE FRANCHISEE

Signature: _____

Print Name: _____

Date: _____

IMPORTANT: PLEASE IMMEDIATELY SIGN, SCAN, AND E-MAIL THIS PAGE TO FRANCHISING@ACEHANDYMANSERVICES.COM, THEN PROMPTLY RETURN THIS PAGE BY MAIL OR COURIER TO ACE PAINTING FRANCHISING, LLC, 12567 WEST CEDAR DRIVE, SUITE 200, LAKEWOOD, COLORADO 80228.

UNIFORM FRANCHISE REGISTRATION APPLICATION

File No. _____
(Insert file number of immediately
preceding filing of Applicant)

State: Wisconsin

Fee: \$400.00

APPLICATION FOR (Check only one):

- ☒ INITIAL REGISTRATION OF AN OFFER AND SALE OF FRANCHISES
☐ RENEWAL APPLICATION OR ANNUAL REPORT
☐ PRE-EFFECTIVE AMENDMENT
☐ POST-EFFECTIVE MATERIAL AMENDMENT

1. Full legal name of Franchisor: Ace Painting Franchising, LLC
2. Name of the franchise offering: Ace Hardware Painting Services
3. Franchisor's principal business address:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
4. Name and address of Franchisor's agent in this State authorized to receive service of process:
Department of Financial Institutions
Division of Securities
4822 Madison Yards Way, North Tower
Madison, Wisconsin 53705
5. The states in which this application is or will be shortly on file:
Illinois, Indiana, North Dakota, Rhode Island, South Dakota & Wisconsin.

6. Name, address, telephone and facsimile numbers, and e-mail address of person to whom communications regarding this application should be directed:

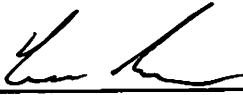
Douglas R. Ferguson, Esq.
Robinson Waters & O'Dorisio, P.C.
1099 18th Street, Suite 2600
Denver, Colorado 80202
Phone: (303) 297-2600
Fax: (303) 297-2750
dferguson@rwolaw.com

Certification

I certify and swear under penalty of law that I have read and know the contents of this application, including the Franchise Disclosure Document with an issuance date of October 28, 2022, attached as an exhibit, and that all material facts stated in all those documents are accurate and those documents do not contain any material omissions. I further certify that I am duly authorized to make this certification on behalf of the Franchisor and that I do so upon my personal knowledge.

Signed at Lakewood, Colorado, October 12, 2022

Franchisor:
ACE PAINTING FRANCHISING, LLC

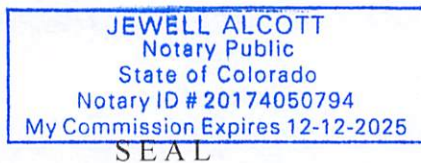
By: 
Name: Cameron Loughlin
Title: President

STATE OF COLORADO)
) ss.
COUNTY OF JEFFERSON)

Personally appeared before me this 12th day of October, 2022, the above-named Cameron Loughlin, to me known to be the person who executed the foregoing application as President of the above-named applicant and, being first duly sworn, stated upon oath that said application, and all exhibits submitted herewith, are true and correct.

Witness my hand and official seal.

My commission expires: 12/12/2025



Jaquell Elliott
Notary Public

UNIFORM FRANCHISE CONSENT TO SERVICE OF PROCESS

Ace Painting Franchising, LLC, a limited liability company organized under the laws of Delaware (the "Franchisor"), irrevocably appoints the officers of the States designated below and their successors in those offices, its attorney in those States for service of notice, process or pleading in an action or proceeding against it arising out of or in connection with the sale of franchises, or a violation of the franchise laws of that State, and consents that an action or proceeding against it may be commenced in a court of competent jurisdiction and proper venue within that State by service of process upon this officer with the same effect as if the undersigned was organized or created under the laws of that State and had lawfully been served with process in that State. We have checked below each state in which this application is or will be shortly on file, and provided a duplicate original bearing an original signature to each state.

- | | |
|--|--|
| ☐ California: Commissioner of Financial Protection and Innovation | ☒ North Dakota: Securities Commissioner |
| ☐ Hawaii: Commissioner of Securities | ☒ Rhode Island: Director, Department of Business Regulation |
| ☒ Illinois: Attorney General | ☒ South Dakota: Director of the Division of Insurance |
| ☒ Indiana: Secretary of State | ☐ Virginia: Clerk, Virginia State Corporation Commission |
| ☐ Maryland: Securities Commissioner | ☐ Washington: Director of Financial Institutions |
| ☐ Minnesota: Commissioner of Commerce | ☒ Wisconsin: Administrator, Division of Securities, Department of Financial Institutions |
| ☐ New York: Secretary of State | |

Please mail or send a copy of any notice, process or pleading served under this consent to:

Douglas R. Ferguson
Robinson Waters & O'Dorisio, P.C.
1099 18th Street, Suite 2600
Denver, Colorado 80202

Dated: October 12, 2022

Franchisor:
ACE PAINTING FRANCHISING, LLC

By: 
Name: Cameron Loughlin
Title: President

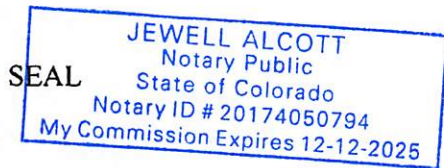
ACKNOWLEDGEMENT

[illegible]

On this 12 day of October, 2022, before me, Jewell Alcott, the undersigned officer, personally appeared Cameron Loughlin, known to me to be the President, of the above-named company, and that he/she, as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by, signing the name of the corporation by himself/herself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

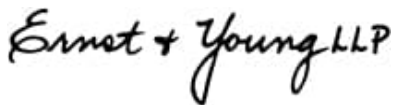
My commission expires: 12-12-25



Joanell Alcott
Notary Public

Consent

Ernst & Young LLP consents to the use in the Ace Painting Franchising, LLC's (d/b/a Ace Hardware Painting Services) Franchise Disclosure Document issued on October 28, 2022, of our report dated February 15, 2022, relating to the consolidated financial statements of Ace Hardware Corporation as of January 1, 2022 and January 2, 2021, and for each of the three fiscal years in the period ended January 1, 2022.



October 28, 2022

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Andy Bell
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC; Ace Painting Services, LLC
- D. Present Title: Chief Executive Officer, President
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Mr. Bell currently serves as the CEO for Ace Painting Franchising, LLC ("APF") and Ace Painting Services LLC ("APS"), positions he has held since each company's inception in November 2021. Mr. Bell also serves as the CEO of Ace Handyman Services, Inc., a position he has held since its inception in 2000, through which he provides management and support services for Ace Handyman Franchising, Inc. ("AHF"). He has served as a Director of AHF from its inception in 2000 to September 2019, and has held the positions of CEO or President with the company at various times from 2000 to September 2019. Mr. Bell also served as a Director and CEO for Ace Handyman Operating, Inc., Handyman Express LLC, and Handyman Express Boulder, LLC from 1998 until September 2019. From the inception of each, Mr. Bell also has served as an officer and member of the Board of Directors of several other companies including Web Scheduler Technologies, LLC (dissolved March 2020), Tetras Properties, LLC, Stair Fitters Franchising, LLC (terminated September 2019), and KJ Vacations, LLC (terminated February 2018).

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

- Names of the parties: _____
- Forum, nature and current status of the pending action: _____
- Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

- Names of the parties: _____
- The forum: _____
- Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Colette Bell
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC; Ace Painting Services, LLC
- D. Present Title: Franchise Development Vice President
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Ms. Bell currently serves as Franchise Development Vice President for Ace Painting Franchising, LLC ("APF") and Ace Painting Services LLC ("APS"), positions she has held since the inception of each company in November 2021. Ms. Bell has also worked as Franchise Development Vice President for Ace Handyman Franchising, Inc. ("AHF") and Ace Handyman Services, Inc. ("AHS") since January 2019. From 2016 to September 2019, she was a consultant with SMB Franchise Advisors. She previously held various other positions with AHF at varying times from its inception in 2000 through 2016, including Chairman of the Board of Directors, Director, President, CEO, and Vice President of Finance. Ms. Bell also served as a Director for AHS from 2000 to 2016, and as the Chief Financial Officer of the affiliated entity Ace Handyman Operating, Inc. (and its predecessors Handyman Express LLC and Handyman Express Boulder, LLC) from 1998 until 2016.

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Nicole Carson
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC
- D. Present Title: Director of Development
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Ms. Carson currently serves as the Director of Development for Ace Painting Franchising, LLC ("APF"), a position she has held since October 2022. Ms. Carson has been Director of Development for Ace Handyman Franchising, Inc. ("AHF") since May 2018 and was the Marketing Assistant Manager for AHF from May 2016 to May 2018. From September 2015 to April 2018, she was a fitness instructor at Xtend Barre, a fitness studio in Highlands Ranch, Colorado.

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Maria Hargett
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC
- D. Present Title: Senior Director
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Ms. Hargett currently serves as the Senior Director for Ace Painting Franchising, LLC ("APF"), a position she has held since October 2022. Maria Hargett has been Senior Director at Ace Handyman Franchising, Inc. since April 2020. Previously she served as Franchising Executive for Dunkin' Brands Inc. from December 2013 to April 2020.

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Kimberly Ann Hobden
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(303) 984-0177
- C. Present Employer: Ace Painting Franchising, LLC
- D. Present Title: General Manager - Denver Operating Company
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Ms. Hobden has been the General Manager of the Denver Operating Company of (i) Ace Painting Franchising, LLC since October 2022, and (ii) Ace Handyman Franchising, Inc. since July 2013.

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Cameron Loughlin
- B. Business address and telephone number:
12567 West Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC, Ace Painting Services, LLC, Ace Painting Operating LLC
- D. Present Title: President; Vice President
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Mr. Loughlin currently serves as President of Ace Painting Franchising, LLC ("APF"), a position he has held since December 2021. He is also the Vice President of Ace Painting Services, LLC ("APS") and President of Ace Painting Operating LLC ("APO"), both positions which he has held since December 2021. Previously he served as Director and President for Mountain Skyline Painting, LLC from November 2015 to December 2021.

2. State whether the person identified in 1 above:

- A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

- B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

FRANCHISE SELLER DISCLOSURE FORM

1. List who will solicit, offer or sell franchises for the Franchisor in this state:

- A. Name: Aaron Patrick Slattery
- B. Business address and telephone number:
12567 Cedar Drive, Suite 200
Lakewood, Colorado 80228
(720) 432-6125
- C. Present Employer: Ace Painting Franchising, LLC
- D. Present Title: Senior Director Franchise Development
- E. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates:

Mr. Slattery currently serves as the Senior Director Franchise Development for Ace Painting Franchising, LLC ("APF"), a position he has held since October 2022. Mr. Slattery is also the Senior Director Franchise Development for Ace Handyman Franchising, Inc., a position he has held since January 2022. Previously, he was President for First Financial Leasing and Loans from July 2018 to November 2021. From May 2015 to June 2018, he was General Manager of Location/Franchise Support for Spaulding Decon.

2. State whether the person identified in 1 above:

A. Has an administrative, criminal or material civil action pending against that person alleging a violation of franchise, antitrust or securities law, or alleging fraud, unfair or deceptive practices, or any other comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Forum, nature and current status of the pending action: _____
3. Case or proceeding identification number: _____

B. Has during the 10-year period immediately before the disclosure document's issuance date been convicted of or pleaded nolo contendere to a felony charge; or been held liable in a civil action involving an alleged violation of a franchise, antitrust or securities law, or allegations of fraud, unfair or deceptive practices, or comparable allegations?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. The forum: _____
3. Case or proceeding identification number: _____

C. Is subject to a currently effective injunction or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise, or to a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law?

YES ☐ NO ☒

If you answered "yes", please provide:

1. Names of the parties: _____
2. Public agency or court: _____
3. Case or proceeding identification number: _____

DOUGLAS R. FERGUSON
TELEPHONE: (303) 297-2600, Ext. 169
WRITER'S E-MAIL: dferguson@rwolaw.com



October 28, 2022

VIA ONLINE FILING

Wisconsin Department of Financial Institutions
Division of Securities
201 W. Washington Avenue, Ste. 300
Madison, Wisconsin 53703

**Re: Ace Painting Franchising, LLC
Initial Franchise Registration**

To Whom It May Concern:

Our law firm has been engaged as franchise counsel for Ace Painting Franchising, LLC (the "Franchisor"). On behalf of the Franchisor, we submit with this letter the following application documents for its initial franchise registration:

1. A clean copy of the Franchise Disclosure Document.
2. An executed Franchise Registration Application with a Certification.
3. An executed Uniform Franchise Consent to Service of Process and Acknowledgment.
4. Franchise Seller Disclosure Forms.
5. The auditor's consent letter for those financial statements included in the Franchise Disclosure Document.

We are also submitting payment for the initial franchise registration fee in the amount of \$400.00.

The audited financial statements of the Franchisor's parent company that has guaranteed the obligations of the Franchisor for the most recently ended fiscal year are included as Attachment J to the Franchise Disclosure Document.

Wisconsin Department of Financial Institutions
October 28, 2022
Page 2

If you have any questions or comments regarding the Franchisor or this filing, please do not hesitate to contact me at the telephone number or address indicated on the first page of this letter.

Sincerely,

Douglas R. Ferguson

Douglas R. Ferguson

Enclosures

cc: Ace Painting Franchising, LLC
13730.002 / 900480