FRANCHISE DISCLOSURE DOCUMENT

CALIFORNIA CLOSETS®

California Closet Company, Inc.
a California corporation
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We offer franchisees the right to operate a retail showroom or design center with a manufacturing facility, referred to as a Manufacturing and Showroom or Design Center California Closets® franchise, that offer, manufacture, and install customized closet, office, garage, and other storage systems for residential and commercial customers under the California Closets® trademark, trade name and System (as defined in Item 1 below). The total initial investment necessary to begin operation ranges from $861,048 to $1,784,660. This includes fees that range from $78,800 to $86,000 that you must pay to the franchisor or 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 the President of Franchise Operations at the address and phone number above.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your franchise agreement. Read your entire franchise agreement carefully. Show your franchise agreement 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. The issuance date of this Franchise Disclosure Document is March 25, 2024.

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How to Use This Franchise Disclosure Document

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

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 Exhibit F.
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 Exhibits A-1 and A-2 include 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 California Closets® 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 franchise 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 a California Closets® franchisee?	Item 20 or Exhibit F list 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.

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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 to 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 laws, that require franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit G.

Your state may also 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.

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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 all disputes with us in Maricopa County, Arizona. Out of state litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to litigate with us in Arizona than in your own state.

2. **Guarantor Liability.** All franchise owners and their spouses will be required to sign a personal guarantee making such spouses jointly and severally liable for all obligations of franchisee under the franchise agreement, regardless of whether the owners and spouses are involved in the operation of the franchised business. This requirement places the personal and marital assets of the franchise owners and spouses at risk.

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

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Exhibits

Exhibit A-1	Audited Financial Statements
Exhibit A-2	Guarantee of Performance
Exhibit B-1	Franchise Agreement (Manufacturing and Showroom or Design Center) (including Telephone Number Assignment Agreement and Power of Attorney and Guaranty and Assumption of Franchisee's Obligations)
Exhibit B-2	Sample Release Language for Renewal of Franchise Agreement
Exhibit C	Reserved
Exhibit D	Sample Nondisclosure Agreement
Exhibit E	Consent to Transfer of Right to Operate Franchised Business and Sale of Certain Assets
Exhibit F	Franchisees as of December 31, 2023
Exhibit G	List of State Agencies/Agents for Service of Process
Exhibit H	State-Specific Additional Disclosures
Exhibit I	Table of Contents of Operations Manual
Exhibit J	State Effective Dates
Exhibit K	Receipts

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ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

This disclosure document describes Manufacturing and Showroom or Design Center ("Manufacturing") California Closets® franchises. In this disclosure document, "Company," "we," "us," or "our" means California Closet Company, Inc., the franchisor, and "you" or "your" means the person to whom we grant a franchise and includes your owners and principals if you are a corporation, limited liability company, or other business entity.

Franchisor and Parents

We are a California corporation formed on February 27, 1981. Our principal business address is 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023. Our parent company is California Closet Holdings, Inc., a Delaware corporation. California Closet Holdings, Inc. is 100% held by FirstService Brands, Inc., f/k/a "TFC Brands, Inc." ("FS Brands"). FS Brands is a Delaware corporation which controls multiple franchise companies, as described below. FS Brands' address is 2621 Van Buren Avenue, Suite 550A, Audubon, Pennsylvania 19403. FS Brands is a subsidiary of The Franchise Company (U.S.) Inc. which is a subsidiary of FirstService Corporation of Toronto, Canada.

For over 20 years, we have offered franchises the right to operate businesses that offer and sell customized closet and storage space design and installation services for residential and commercial uses. We do business only under our corporate name and the name "California Closets®." We do not engage in any other business activities and have never offered franchises in any other line of business.

Agent for Service of Process

Our agents for service of process are listed in Exhibit G.

The Business We Offer

We presently offer a California Closets® Manufacturing franchise which may also be referred to as the "Franchised Business." Beginning in March 2024 we will also offer a Design, Sell & Install ("DSI") model. The DSI franchise model is offered under a separate franchise disclosure document that is specifically for the DSI model. The DSI model is identical to the Manufacturing model except the DSI franchise does not contain a manufacturing facility and does not manufacture the custom storage solutions, so the franchisee must obtain the custom storage solutions from one of the Fulfillment Facilities (as defined below under the heading "**Predecessors and Affiliates**") operated by a company affiliated with us.

Under our Franchise Agreement for Manufacturing ("Franchise Agreement") franchisees obtain the right to operate retail showrooms/design centers that offer and sell customized closet, office, garage, and other storage space and organizational system design and installation services ("Storage Space Services") and installable accessories such as belt racks, tie racks and valet rods ("Organizational Accessories"), and that contain a manufacturing facility where the franchisee manufactures the custom closet, office, entertainment, garage, and other storage solutions according to our standards and specifications ("Manufacturing Services") for Residential Customers (defined below) and non-Residential Customers. . "Residential Customers" are individuals or entities within the territories that require Storage Space Services and Organizational Accessories for their private homes, apartments and apartment buildings, condominiums, mobile homes, or other residential dwellings. You can also provide Storage Space Services, Organizational Accessories, and other authorized products and services to non-Residential Customers, provided that the total invoice for a job performed for a non-Residential Customer does not exceed $500,000 without our prior written approval and the location of the project is within a 200-mile radius of your territory, defined as your "Marketing Area."

Each California Closets® franchise operates according to our proprietary business system, which includes: (a) standards and specifications for providing Storage Space Services, Organizational Accessories, and related goods and services; (b) distinctive interior and exterior showroom and design

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center designs and décor and color schemes; (c) uniform standard and specifications for furniture, fixtures and equipment; (d) sales techniques; (e) merchandising, marketing and advertising; (f) and other standard procedures for operating a retail and/or manufacturing businesses, as applicable (individually and collectively, "System").

We identify the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including "California Closets®," our distinctive trade dress, and any other trade names, trademarks, and service marks we may now or in the future designate in writing for use in connection with the System (individually and collectively, "Trademarks"). We continue to develop, use, and control the Trademarks to identify for the public the source of products and services marketed under the System, and to represent the System's high standards of quality, appearance, and service.

Predecessors and Affiliates

The founder of the California Closets® concept began his business operating as a sole proprietorship in 1978. He started offering California Closets® franchises in 1980. We have no other predecessor.

We do not operate the type of business being franchised, but several California Closets® locations are operated under the DSI model by several of our affiliated entities. We refer to these locations as "Corporate Locations." Cal Closets Retail, Inc. ("CC Retail"), a Delaware corporation with a principal business address of 2001 W. Phelps Rd., Suite 1, Phoenix, AZ 85023; CC of Oregon, LLC ("CC Oregon"), an Oregon limited liability company with a principal business address of 12200 SW Tualatin Rd, Ste 100, Tualatin, OR 97062, and CC WPB, LLC ("CC WPB") a Florida corporation with a principal business address of 807 S. Kings Highway, Fort Pierce, FL 34945, are our affiliates that operate Corporate Locations using the DSI model. None of the Corporate Locations have full manufacturing facilities. CC Retail, CC WPB, and CC Oregon do not offer or sell franchises in any line of business and do not provide products or services to our franchisees.

Our affiliate, Cal Closets Fulfillment, Inc. ("CC Fulfillment"), formerly named Marsand, Inc., is an Arizona corporation formed on March 7, 2005, having addresses at 9704 W. Roosevelt Street, Suite 200, Tolleson, AZ 85353 and at 4930 Kraft Avenue. SE, Grand Rapids, MI 94512. CC Fulfillment provides Manufacturing Services to some California Closets® franchisees and to all of our Corporate Locations (each a "Fulfillment Facility" and collectively, "Fulfillment Facilities"). Due to the affiliate relationship, CC Retail, CC Oregon, and CC WPB have with us, Corporate Locations pay cost for manufacturing services provided by CC Fulfillment.

In addition, we have several affiliates who offer a variety of franchises, as set forth below:

Company/Address	***Type of Business/Year Began Offering Franchises***	***Number of Franchises as of December 31, 2023***
Certa ProPainters, Ltd., a Massachusetts corporation 2621 Van Buren Avenue, Suite 550A, Audubon, PA 19403	Residential and commercial painting and decorating franchises / 1992	326 (United States)
Certa Pro Painters Ltd., a Canadian corporation 1140 Bay Street, Suite 4000 Toronto, Ontario M5S 2B4 Canada	Residential and commercial painting and decorating franchises / 1990	28 (Canada)

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Company/Address	***Type of Business/Year Began Offering Franchises***	***Number of Franchises as of December 31, 2023***
Floorcoverings International, Ltd., a Georgia corporation 5390 Triangle Parkway Suite 125 Norcross, GA 30092	Mobile retail floor covering and window blind business / 1998	252 (United States) 8 (Canada)
Paul Davis Restoration, Inc., a Florida corporation 7251 Salisbury Road, Suite 6 Jacksonville, FL 32256	Loss mitigation and emergency services for residential and commercial structures / 2009	245 (United States) PDES 36
Paul Davis Restoration, Inc., a Canadian corporation 38 Crockford Boulevard Toronto, Ontario M1R 3C2 Canada	Structural reconstruction and emergency services, including drying, cleaning, loss mitigation and mold remediation, of residential and commercial structures and contents / 2014	61 (Canada)
Pillar To Post Inc., a Delaware corporation 14502 North Dale Mabry Highway, Suite 200 Tampa, FL 33618	Residential inspection services for single family and some various smaller multi-family residences / 1995	445 (United States)
Pillar To Post Inc., a Canadian corporation 5399 Eglinton Ave W Suite 110 Etobicoke, Ontario M5C 5K9 Canada	Residential inspection services for single family and various multi-family homes / 1994	47 (Canada)
AFFILIATES WHICH MAY FROM TIME TO TIME PROVIDE PRODUCTS OR SERVICES TO THE FRANCHISOR AND/OR ITS FRANCHISEES:		
Tele-Link Services Inc., an Ontario corporation 700 Richmond Street, Suite 416 London, Ontario N6A 5C7 Canada	Answering services and telemarketing and customer survey services for the franchisor and its franchisees	N/A

Except as stated above, our affiliates and predecessors do not engage in any other activities and have not offered franchises in this or any other line of business.

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Market and Competition

In general, the storage space customization business is mature and competitive. Your competitors will include other local, regional, and national businesses and chains which provide residential storage solutions. Your competitive advantage in the marketplace will be based on your entrepreneurial and managerial abilities and focus on customer service.

Industry-Specific Regulations

In certain states, franchisees must obtain a state contracting license in specified classes or register with the state home improvement agency. You may also have to comply with regulations of state home improvement agencies, which require the submission of an application evidencing prior experience in the home improvement field, the completion of an exam, and/or the payment of a fee for a license. In some instances, state contracting and home improvement licenses are only available with proof of several years of relevant industry experience by an individual applicant or the employee of a corporate applicant. These laws also frequently limit the amount or percentage of the up-front deposit that a contractor can collect from a Residential Customer before completing a job. In certain states home improvement salespersons are also required to be licensed or registered and must also comply with regulations of the state home improvement agencies which require the submission of an application, completion of an exam and/or the payment of a fee. In addition, you and your employees may be required to undergo a criminal background check before the state home improvement agencies will issue a contractor's or salesperson license.

You may also be subject to other state and local licensing requirements, permitting and certification laws, zoning laws, and ordinances. Your business will also be subject to OSHA regulations, ADA requirements, privacy protection laws, and state and local laws which govern machinery operation, materials handling, and dust collection processes. You must investigate all applicable federal, state, and local laws and regulations, and your cost to comply with such laws and regulations, with an attorney and/or financial advisor before purchasing a Franchised Business from us. Applicable laws and regulations are subject to change.

As of 2010, the U.S. Environmental Protection Agency's lead-based paint renovation, repair and painting regulations require contractors performing certain renovation work in homes, childcare facilities, and schools built before 1978 to be certified and follow certain specific work practices to prevent lead contamination (see 40 C.F.R Part 7455). You can obtain further information regarding the EPA regulation and its application at www.epa.gov/lead/pubs/renovation.htm.

ITEM 2
BUSINESS EXPERIENCE

Director, President & Chief Executive Officer: Charles E. Chase

Mr. Chase has served as a Director of the Company since August 2010, and as the President and CEO since October 2020. Mr. Chase is the President and Chief Executive Officer and a Director of FS Brands. Mr. Chase also serves as a Director for several of the affiliates disclosed in Item 1. Mr. Chase's office is located in Audubon, Pennsylvania.

Director: Stephen R. Carpenter

Mr. Carpenter has served as a Director of the Company since February 2021. From January 2015 through December 2016, Mr. Carpenter served as the Chief Technology Officer/Vice President of IT for FS Brands in Audubon, Pennsylvania and has served as the Chief Information Officer of FS Brands since January 2018. In October 2021, Mr. Carpenter was named Senior Vice President of Technology and Information Services for FirstService Corporation. From January 2017 through December 2017, Mr. Carpenter served as the Chief Information Officer of the Company in Richmond, California.

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Director and Assistant Secretary: Brian M. McDonough

Mr. McDonough has served as a Director and Assistant Secretary of the Company since February 2021. Mr. McDonough has also served as the Vice President of Finance for FS Brands since January 2021, and prior to that, served as the Director of Finance for FS Brands from January 2019 until January 2021. From January 2014 until January 2019, Mr. McDonough served as the Controller of College Pro Painters (U.S.) Ltd., a company that he joined in 2005. Mr. McDonough's office is located in Plymouth, Massachusetts.

Chief Financial Officer, Secretary and Treasurer: Rhonda Biddix

Ms. Biddix has served as our Chief Financial Officer since December 2019. Prior to this, Ms. Biddix worked for Symantec in Tempe, Arizona from May 2014 through December 2019, where she served as the Vice President of Financial Planning and Analysis from May 2014 through October 2017, and then served as the Head of Operational Performance Excellence from November 2017 through December 2019.

President, Franchise Operations: April Broome

Ms. Broome served as our Vice President of Franchising from September 2020 until February 2023, when she was promoted to President, Franchise Operations. From January 2020 through September 2020, Ms. Broome provided Brand Support to FS Brands, Inc. located in Toronto, Ontario, Canada. Prior to that, from October 2017 through January 2020, Ms. Broome served as the CEO and CFO of College Pro located in London, Ontario, Canada.

Senior Area Director Franchise Operations: Hannah Zarkowskyj

Ms. Zarkowskyj was the General Manager of an affiliate-owned California Closets® location from May 2017 through December 2018. In January 2019, Ms. Zarkowskyj became our National Sales Manager, and from September 2019 through January 2023, she served as an Area Director Franchising. In January 2023, Ms. Zarkowskyj was promoted to Senior Area Director Franchise Operations.

Senior Vice President Supply Chain and Manufacturing: Peer Nielsen

Mr. Nielsen served as the Vice President of Manufacturing from May 2022 until September 2023, when he was promoted to Vice President, Supply Chain and Manufacturing, followed by a second promotion in September 2023 to Senior Vice President Supply Chain and Manufacturing. Since January 2018, Mr. Nielson has been a Partner in Business Improvement Group LLC located in Boston, MA.

Vice President, Solutions: Cheryl Compton

Ms. Compton is our Vice President, Solutions. Solutions was previously known as Product Management but changed its name to Solutions in December 2023. She has been with us since August 2015, when she joined us as our Director of Product Management.

Training Specialist: Aleeshya Broome

Ms. Broome joined us as our Training Specialist from August 2022 through February 2024, when she was promoted to National Training Program Manager. From August 2020 until August 2022, Ms. Broome worked for Telelink Services, Inc. in London, Ontario, Canada. From August 2020 through May 2021, Ms. Broome was a Team Lead and MomentMaker, from May 2021 to March 2022, she served as the Communications Coordinator, and from February 2022 until August 2022, Ms. Broome served as the Manager of Franchise Experience & Communication Specialist. Prior to working at Telelink Services, Inc., Ms. Broome worked at College Pro located in London, Ontario, Canada as an Administrative Assistant from February 2018 until February 2019, and as the Manager of Events & Brand Awareness Coordinator from February 2019 until January 2020.

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ITEM 3
LITIGATION

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 Franchise Fee

You must pay us an initial franchise fee for each Marketing Area when you purchase a Manufacturing franchise. The initial franchise fee is $70,000 for the first Marketing Area ("Initial Franchise Fee") and must be paid to us in a lump sum when you sign a Franchise Agreement. The Initial Franchise Fee is reduced to $35,000 for each additional Marketing Area. Qualified honorably discharged U.S. Military veterans will receive a 10% discount on the Initial Franchise Fee and renewal fee.

A Marketing Area contains a minimum of 60,000 households and a maximum of 200,000 households with at least 20,000 of those households having an annual household income of $150,000 or greater. We use a software platform called Sugar to determine the demographics in a Marketing Area. You and we will agree upon your Marketing Area prior to your execution of the Franchise Agreement.

Training Fee

All franchisees must pay to us a non-refundable training fee of $14,000 ("Training Fee"). The Training Fee is paid in full upon the execution of the Franchise Agreement.

Other Initial Fees - Licenses

You must purchase from us licenses for the required customer experience management ("CXM") platform. We will be transitioning from our current CXM platform to Salesforce and will require franchisees to transition to the new platform as determined in our sole discretion. The initial costs for these licenses range from $1,800 to $2,000 but could be higher depending on whether you decide to purchase additional licenses. The license fees must be paid to us upon the earlier of the opening of the first showroom or taking the first client appointment.

Except as provided for above, all initial fees, including the Initial Franchise Fee, are uniformly imposed and are deemed fully earned and non-refundable upon payment.

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ITEM 6
OTHER FEES

Column 1 TYPE OF FEE (note 1)	Column 2 AMOUNT	Column 3 DUE DATE	Column 4 REMARKS
Royalty	6% of Revenues	20th day of each month	Royalty report is due to us on the 15th day of each month. You must pay this fee to us each month based on the prior month's Revenues. If you are in default or breach of your Franchise Agreement, we may increase the Royalty Fee up to eighteen percent (18%) from the date the default or breach occurred until the date it is cured. This is a Breaching Royalty Fee. The minimum period the Breaching Royalty Fee will be charged is 7 days.
Marketing Fund	3% of Revenues	20th day of each month	This is the national marketing fund
Local Advertising Expenditure (note 2)	Minimum of 5% of Revenues per calendar year	Not paid to us. This is an annual obligation; you control the timing of expenditures throughout each calendar year.	You must submit a monthly report to verify your local advertising expenditures. Unexpended amounts shall be remitted to us by you as Royalty at the end of each calendar year.
CXM License Fee	CC Dashboard $197.50 per quarter per designer Salesforce $300 per quarter per designer, customer support staff and sales manager; $75 per quarter per installation manager and installer; and $240 per quarter for all other users	Quarterly upon your receipt of our invoice	CC Dashboard is the current required CXM platform. We are in the process of migrating to Salesforce which will be the new required CXM platform that will replace CC Dashboard. We will determine the timing of the migration for each franchisee. The CXM License Fee is payable to us, and we pay the third-party vendor(s). The CXM License Fee is subject to change based upon changes in fees charged by third-party vendor(s).
CXM Platform Fee	0.15% of total installed revenue	Quarterly upon your receipt of our invoice	The CXM Platform fee covers the hosting, maintenance, and operation of the CXM platform. The CXM Platform Fee is payable to us, and we pay the third-party vendor(s). The CXM Platform Fee is subject to change based upon changes in fees charged by third-party vendor(s).

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Column 1 TYPE OF FEE (note 1)	Column 2 AMOUNT	Column 3 DUE DATE	Column 4 REMARKS
Technology License and Support Fee	$16-$120 per user per quarter	Quarterly upon your receipt of invoice	This fee is for optional technology licenses in addition to any required licenses. Our specified support of the optional licenses is included in the Technology License and Support Fee. You will be required to sign the Technology License and Support Agreement if you request one or more of the optional offered licenses and support. The Technology License and Support Fee is subject to increase based upon changes in fees charged by the third-party vendor(s)
SEM Fee	Cost of digital lead generation campaigns and tactics, media and agency fees, less the amount subsidized by the national marketing fund.	20th of each month	This is Company-managed digital lead generation. The national marketing fund subsidizes the fee by paying approximately 25%, which is subject to change. SEM Fee includes, but is not limited to, the cost of SEM, digital retargeting media, digital prospecting media and agency fees.
Customer Leads	As determined by lead generator	After completion of customer sale	We have the right to pass the lead cost we are charged by the lead generator on to you for all customer leads that we refer to you, but at present we do not charge for them.
Joint Marketing Programs	Varies by type of activity; for ongoing pooled advertising, the amount is determined by vote of the Marketing Co-op	Varies by Marketing Co-op	We have the right to establish different types of joint marketing programs in which you must participate. Your contributions to a Marketing Co-op and/or expenses for other Joint Marketing Programs are in addition to your 3% Marketing Fund contribution but count toward your 7% Local Advertising Expenditure.
Transfer Fee	$20,000 per Marketing Area	Upon signing documents to transfer franchise	Transfer of your Franchised Business is subject to our approval and right of first refusal.
Renewal Franchise Fee	50% of then-current Initial Franchise Fee per Marketing Area. Qualified honorably discharged U.S. Military veterans will receive a 10% discount on the Renewal Franchise Fee.	Upon signing renewal Franchise Agreement	Renewal of your Franchise Agreement is subject to our approval. You must sign the then-current form of Franchise Agreement which may contain different terms than the Franchise Agreement disclosed under this franchise disclosure document.
Training Fee	$14,000	Before training begins	Applies when new franchisees, general managers, transferees, and renewing franchisees attend our initial training program.

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Column 1 TYPE OF FEE (note 1)	Column 2 AMOUNT	Column 3 DUE DATE	Column 4 REMARKS
Additional Training and On-Site or Virtual Operating Assistance (note 3)	$100-$250 per day per person for classroom training; $400 per trainer per day for on-site assistance, plus expenses, including travel and lodging	On demand	We have the right to charge fees for additional training or optional training courses and for onsite operating assistance you request. If we charge a fee, we anticipate it would not exceed the rates shown to the left. The additional training and on-site operating assistance may be done virtually.
Interest on Late Payments	Lower of 1.5% per month or the highest legal rate allowed	With overdue amount	We can charge interest from the due date until the delinquent amount is paid in full.
Non-Sufficient Funds Fee	$30	On demand	This will be charged when we attempt to make an electronic funds transfer from your bank account to pay a fee and the transfer is rejected due to non-sufficient funds or when your check does not clear our bank account due to non-sufficient funds in your bank account.
Breaching Royalty Fee	18%	On demand	If you are in default or breach of any term or provision of your Franchise Agreement, we may increase the Royalty Fee up to eighteen percent (18%) from the date the default or breach occurred until the date it is cured. The minimum period the Breaching Royalty Fee will be charged is 7 days.
Admin Fee	$250	On demand	We can charge this fee if we send to you for signature (i) a document with agreed-upon terms, or (ii) a document for acknowledgment, more than 3 times within a6 month period or if the document has not been signed within 3 months of us sending it to you, and the resending of the document or delay in signing is not caused by us.
Redraft Fee	$750	On demand	We can charge this fee if we draft a document with agreed-upon terms, send it to you for review and signature and revisions are requested more than 3 months after the date it was sent to you.
Audit Expenses	Estimated at between $3,000 to $10,000	On demand	Payable if we audit because you failed to submit required reports on time or to maintain records, or if the audit shows greater than 5% understatement.

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Column 1 TYPE OF FEE (note 1)	Column 2 AMOUNT	Column 3 DUE DATE	Column 4 REMARKS
Enforcement Costs	Our actual costs; will vary with the circumstances	On demand	You must reimburse us for all costs and expenses (including attorneys' fees) that we incur for enforcement as a result of your failure to comply with the Franchise Agreement, whether or not we initiate a formal legal proceeding.
Indemnification	Amounts we incur arising from claims involving your Franchised Business	On demand	You must defend, indemnify, and hold the Company harmless.
Post-Termination and Post-Expiration Expenses	Costs and expenses associated with ceasing operations and de-identifying yourself with California Closets® and our System	As Incurred	None
Showroom Buildout Services	Approximately $400 per day, plus expenses	As incurred	Upon your request, we may, in our sole discretion, agree to provide assistance with building out your showroom. These services are optional.
Assumption of Management	$500 per day plus costs and expenses	On demand	If you abandon or fail to operate your Franchised Business and we or a third party takes over the management of the Franchised Business for up to 60 days. This is in additional to the Royalty fee and Marketing Fund fee.

NOTES:

1) Revenue is based on standard revenue recognition practices. “Revenues” means the total revenue derived from all Substantially Completed (as defined below) installations and the sale of non-installed products, such as clothes hangers and other accessories, through your Franchised Business, whether for cash or credit, including any payments made under any policy of business interruption insurance relating to the Franchised Business, excluding applicable sales taxes, use taxes, gross receipts taxes, and other similar taxes added to the sales price and collected from the customer, and any bona fide refunds, rebates, and discounts. The term “Substantially Completed” means that the closet(s) and/or other storage system(s) are sufficiently complete to the point where the customer can use the closet(s) and/or other storage system(s) for their intended use with the exception of minor items such as accessories and/or special-order items to be completed separately.

2) You must spend between Twenty-Five Thousand Dollars ($25,000) and Seventy-Five Thousand Dollars ($75,000) on pre-opening and initial marketing in your Marketing Area for your Franchised Business. We must approve your pre-opening and initial marketing strategies.

3) We offer additional optional and designated mandatory training for you and/or your employees. You may be required to participate in and satisfactorily complete additional training courses and programs, which may be at the location of your Franchised Business or such other location as we designate and may include classroom training. For either mandatory or optional training courses, you must pay all transportation costs, meals, lodging, and other expenses incurred for attendance at all training courses. In addition, we sponsor conventions from time to time for franchisees and

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franchisees' employees, respectively. You and your employees will be required to attend such conventions periodically.

4) Unless otherwise stated above, all fees are payable to us, are uniformly imposed, and are nonrefundable.

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 (Note 1)
Initial Franchise Fee (Note 2)	$63,000 to $70,000	Lump sum	Signing of Franchise Agreement	Us
Training Fee (Note 3)	$14,000	Lump Sum	Signing of Franchise Agreement	Us
Rent (showroom and design center and manufacturing facility) (Note 4)	$50,000 to $120,000	As arranged	Monthly	Lessor
Improvements (showroom and design center and manufacturing facility) (Note 5)	$25,000 to $175,000	As arranged	Before opening	Lessor or contractors
Inventory and Supplies to Commence Operations (Note 6)	$50,000 to $150,000	As arranged	Before opening	Approved suppliers
Manufacturing Equipment, Tools and Furnishings (Note 7)	$300,000 to $420,000	Lump sum or lease	Before opening	Approved suppliers
Required Technology and Licenses (Note 8)	$17,000 to $55,300	Lump sum	As incurred	Us or approved suppliers
Optional Technology License and Support (Note 9)	$48 to $360	First Quarterly fee to be paid upfront in a lump sum	As incurred	Us
Motor Vehicle (Note 10)	$180,000 to $400,000	Lease payment or lump sum	Before opening	Lessor or seller
Utility Deposits – Other Prepaid Expenses	$500 to $5,000	Lump sum	Before opening	Phone company, other utilities
Pre-Opening Employee Wages (Note 11)	$50,000 to $100,000	As arranged	As incurred	Your employees

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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 (Note 1)
Pre-Opening and Initial Marketing (Note 12)	$25,000 to $75,000	As arranged	Pre-opening and initial as incurred	Approved advertisers
Travel and Lodging for Training	$4,000 to $10,000	Lump sum	As incurred	Airlines, hotels, restaurants, car rental/taxi service for up to 3 people
Insurance (Note 13)	$50,000 to $75,000	Determined by insurer	As arranged	Insurance companies
Legal and Accounting	$2,500 to $25,000	Lump sum	As arranged	Attorney and accountant
Additional Funds – 9 months (Note 14)	$30,000 to $90,000	As arranged	As needed	Employees, suppliers
TOTAL	$ 861,048 to $1,784,660			

NOTES:

1) Unless otherwise noted, all payments to us are non-refundable.

2) The Initial Franchise Fee is $70,000 for your Marketing Area. Qualified honorably discharged U.S. Military veterans will receive a 10% discount on the Initial Franchise Fee. The fee for each additional Marketing Area you add to your Franchise Agreement is $35,000.

3) This fee covers the cost for you and up to 2 additional persons. You are responsible for your and your attendees' travel, car rental or taxi service, meal, and lodging expenses associated with attending training. The costs you will incur will depend on the distance traveled, type of lodging you choose, duration of training, and the time of year. Many hotels have rates that increase or decrease depending on the time of year.

4) Manufacturing facilities are located within the Marketing Area, typically in light-industrial zoned areas in close proximity to multiple service areas. The manufacturing facility should be a minimum of 5,000 square feet and the average size of a manufacturing facility is 5,000 to 15,000 square feet. The estimate does not include lease deposit, taxes, or insurance. This space may include offices for the Franchised Business. Showrooms and design centers are typically centrally located within the Marketing Area, in close proximity to residential areas within a shopping district of mixed-use retail businesses, including a mix of high-end retail businesses and close to or on a main throughway. Freestanding retail stores or retail improvement, lifestyle or interior design centers are preferred. The showroom or design center should be a minimum of 1,000 square feet and the average size of a showroom or design center is 1,000 to 2,000 square feet. The estimate in the chart above does not include lease deposit, taxes, or insurance. Rental rates vary considerably depending upon the type of location and the market conditions affecting commercial property in your area. Your showroom or design center may include offices for the Franchised Business. We anticipate the initial investment period to be 9 months.

5) Leasehold improvements include construction items such as flooring, lighting, drywall, cabinets, countertops, electrical systems, ventilation systems, and dust extraction. Your cost for leasehold improvements to an existing building will vary depending upon the size of your Franchised Business and its geographic location. If you are converting an existing business into a California Closets®

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franchise, your costs may be higher or lower depending on the available assets, fixtures and conversion costs. Construction costs in some areas of the country may exceed these estimates. Your landlord may provide many or all of these tenant improvements at no additional cost to you. Construction costs in some areas of the country may exceed these estimates. Your landlord may provide many or all of these tenant improvements at no additional cost to you.

6) Inventory will include items such as prefabricated wood panels, door and drawer fronts, moldings and edge banding for your manufacturing facility and door and drawer inserts, home and home office hardware and accessories, magnetic locks and acrylic parts for your office and showroom or design center.

7) You will need various equipment for your manufacturing facility, including an edge-banding machine, VB machine, multi-drill, several different saws, forklift (typically leased), compressor and air system, dust extractor, pallet racks, hand tools, and other items. You will also need equipment and furnishings for your office and showroom or design center, including office equipment, computer hardware and peripherals, desks and chairs, display racks, tech table, furniture for a reception area, and furniture for additional customer meeting spaces. We will provide you with a list of recommended computer hardware, equipment and approved vendors after you sign the Franchise Agreement.

8) You must subscribe to our specified CXM platform and CAD software in your Franchised Business, as well as any other software we may require from time to time. The CXM is a full-cycle customer experience management software and database application. The maximum estimate in the chart includes the cost of CC Dashboard for three designers. When the transition occurs from CC Dashboard to Salesforce, we estimate you will need a minimum of one license for your general manager, one license for your engineer, three licenses for your designers, three licenses for installers, and one license for office staff. The estimate also includes the cost of Salesforce for three designers, three installers, one general manager, one engineer and one office staff member. The estimate includes three computers for the franchised operations – one back office/production user, one front office/customer liaison user, and one design consultant. You must have a broadband Internet connection for access to our extranet and other programs and implement, maintain and enforce data security measures. The estimate assumes that you purchased the CAD Software for three users (see Item 8 – Computer Aided Design (CAD) Software). You must use accounting software approved by us.

   We have approved a CAD solution from a particular vendor for use in California Closets® businesses. The CAD software generates, stores, and reports data on the design, production, and installation of customers' jobs. The monthly per-license fees for the CAD software are: $30 for each front desk CAD key, $122 for each designer, $160 for each engineer, and $280 for each DXF machining export link. The CAD fees are currently charged to you by the vendor, but is subject to change and may be charged to you by us, and are subject to increase by the vendor. We estimate to open your Franchised Business, you will need a minimum of one engineer CAD key, one DXF CAD key, three designer CAD keys, and one front desk CAD key. Information regarding the approved CAD vendor, the CAD software and CAD keys is included in the Operations Manual (as defined in Item 8 below).

   We may require all System users to access the suite of software applications with a uniform federated login using Single Sign On (SSO). This security measure could result in an additional monthly user charge for the standard login method implemented by us.

9) If you choose to purchase any optional technology license, you will be required to sign a Technology License and Support Fee Agreement, which will include the optional license(s) purchased and the fee for each license. The range of fees listed in the chart above is for the first quarterly fee for one user The cost may increase depending on the number of additional technology licenses you purchase.

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10) You will need at least three vans for the Franchised Business. The vans must bear decals and be equipped and designed in accordance with our standards and specifications, including, without limitation, your entity name, phone number, and contractor's number. If you elect to lease rather than purchase the van, your initial costs will likely be less than shown in the chart. The estimate range provided is the cost to purchase three used vans on the low end to the cost of three new vans on the high end.

11) You will need to bring on employees to help you prepare for opening. The estimate is for three full-time employees' wages for three months. These may include a general manager, production manager, and a designer.

12) The amount spent on initial advertising will depend on the size of your Marketing Area and may include social media, search, and other digital marketing programs, direct mail, local print, billboards, radio and television, an initial supply of marketing materials, and a showroom event.

13) The estimate is the first-year's premium for liability insurance only and does not include the cost of workers' compensation insurance. The cost of workers' compensation insurance will vary according to the number of employees of the Franchised Business and may vary widely from state to state. We also encourage you to secure employment practices insurance but have not included an estimate in this Item as it varies widely from state to state and based upon the number of employees in the Franchised Business.

14) This is an estimate of additional funds you will need before opening and during the initial period of operation, which we define as 9 months from the opening of the Franchised Business. You will have ongoing expenses for rent, utilities, materials, advertising and promotion, payroll, taxes, and benefits for employees. The estimate does not include any finance charges and related costs of such financing if you obtain financing for the initial investment. You should not expect to draw income from the Franchised Business during the initial phase. We based this estimate in part on information reported to us by our existing franchisees. We cannot guarantee that you will not incur additional expenses. Your actual costs will depend on factors such as your conformance with our recommended methods of doing business, the demographics and economic conditions in the Marketing Area, competition, your management skill, experience and business acumen, the prevailing wage rate in your area, and sales levels reached by the Franchised Business during the initial period. You should review these figures carefully with a business advisor before deciding to invest in a franchise.

ITEM 8
RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must operate your Franchised Business in strict conformance with our methods, standards, and specifications which we prescribe in our confidential Operations Manual and various other confidential manuals and writings prepared for use by you in operating your Franchised Business (collectively the "Operations Manual"). The Operations Manual covers nearly all aspects of your operations, such as the provision of closet storage solution consultation and design services, sales presentation techniques, employee training, and business management. These standards are subject to change in our sole discretion.

Approved Products, Services, and Suppliers

You may only offer approved products and services ("Approved Products and Services") through your Franchised Business. We will provide you with a list of Approved Products and Services upon signing your Franchise Agreement. All Approved Products and Services must meet our standards and specifications. To: (i) better assure the quality of the Approved Products and Services; (ii) assure the supply of the Approved Products and Services; and/or (iii) enable us, in our sole discretion to take advantage of marketplace efficiencies, we have the right to require you to purchase certain Approved Products and Services only from us, our affiliates, or other suppliers or distributors approved or designated by us,

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including purchasing materials to be installed in customers' homes as well as equipment, tools, furnishings, and supplies required for the operation of the Franchised Business. We may develop certain proprietary products which you must purchase from us and offer for sale by your Franchised Business. If you decide to offer products or services other than those we have authorized in connection with operating your Franchised Business, you must obtain our prior written consent.

You must at all times maintain sufficient levels of inventory to adequately meet consumer demand of your Franchised Business. You must purchase all applicable inventory, equipment, fixtures, furnishings, product display units, signs, uniforms, supplies, and any other materials we designate for use in connection with your Franchised Business from us or our designated or approved suppliers. You must offer products and services in the manner we prescribe, provide quality customer service, and otherwise operate your Franchised Business in a manner which will enhance the image intended by us for the System.

We reserve the right to formulate and modify our standards and specifications for operating your Franchised Business based upon the collective experience of our principals and franchisees. Our standards and specifications are described in the Franchise Agreement, the Operations Manual, and other written documents. We have the right, under the Franchise Agreement, to change the standards and specifications applicable to the operation of the Franchised Business, including standards and specifications for materials to be installed in customers' homes as well as equipment, tools, signs, interior designs and furnishings, supplies, fixtures, inventory and equipment by written notice to you or through changes in the Operations Manual. We may issue our standards or specifications for products and services directly to you or our approved supplier. You may incur expenses and an increased cost to comply with these changes. We will notify you of any change to our standards and specifications by way of written amendments to the Operations Manual or otherwise in writing.

Supplier Approval

In the event you wish to purchase any unapproved item, including inventory, and/or acquire approved items from an unapproved supplier, you must provide us the name, address and telephone number of the proposed supplier, a description of the item you wish to purchase, and purchase price of the item, if known. At our request, you must provide us with a sample of the item you wish to purchase for testing purposes.

We will use our best efforts to notify you of our approval or disapproval of a particular supplier or product within 30 days after receiving all requested information. We are not required to approve any particular supplier or product. We may base our approval of a proposed item or supplier on considerations relating not only directly to the item or supplier, but also indirectly to the uniformity, efficiency, and quality of operation we deem necessary or desirable in our System as a whole. We have the right to receive payments from suppliers on account of their dealings with you and other franchisees and to use all amounts we receive without restriction (unless instructed otherwise by the supplier) for any purposes we deem appropriate. We will not approve an unreasonable number of suppliers for a given item, which approval might, in our reasonable judgment, result in higher costs or prevent the effective or economical supervision of approved suppliers. Our criteria for approval of a particular supplier or product will be made available upon written request. We may revoke our approval of particular products or suppliers when we determine, in our sole discretion, that such products or suppliers no longer meet our standards. Upon receipt of written notice of such revocation, you must cease purchasing products from such suppliers. You must use products purchased from approved suppliers solely in connection with the operation of your Franchised Business and not for any competitive business purpose. We reserve the right to negotiate purchasing arrangements with suppliers. You may not receive a material benefit in the form of renewal rights or rights to additional territories based on the use of our approved products, services, or suppliers.

Computer Hardware and Software

We estimate you will need to purchase a minimum of three computers to start your Franchised Business. You must also use the designated CXM platform required by us. If we change the CXM platform, you will be required to use the new CXM platform for your Franchised Business. In addition, you must

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purchase and use our designated CAD software. We have negotiated special pricing for our franchises. We have paid the vendor to add our specific product catalog items to the vendor's software, so that your designers will be able to use the CAD software to design the full line of California Closets® approved products. We may continue to invest in this software in the future, but we have no obligation to do so. We are not affiliated with the CAD software vendor and we do not receive any portion of the fees that our franchisees pay for the CAD software. You are also required to use the accounting software approved by us.

We have entered into an agreement with a vendor of search engine marketing (SEM) services. The vendor's experts in local Internet search technology develop strategies to boost the prominence of the California Closets® brand and website in online searches by consumers.

Our general online marketing strategy encompasses not only our corporate website but also local pages within the corporate website. Coordination between the national website and the local pages, in particular with respect to search engine marketing and optimization, is crucial to the effectiveness of our online strategy and brand presence. For that reason, we do not permit franchisees to have local microsites or individual websites for their Franchised Business. If you choose to obtain SEM services, you must use our designated vendor, whose personnel understand the consistency and integration needed between our national website and your local pages to make search strategies work effectively to drive business locally. The vendor will be available to work with you to arrange the appropriate keywords and phrases that are consistent across the brand and that will complement the national efforts.

We have negotiated terms under which our franchisees can obtain services from our SEM vendor, if they so choose. We are not affiliated with the vendor and we do not receive any portion of the fees that our franchisees pay for the SEM vendor’s services.

Insurance

You must purchase insurance for your Franchised Business with coverage and minimum policy limits we specify from time to time. Currently we require: (a) Commercial General Liability – $1,000,000 per occurrence with and aggregate limit of at least $2,000,000, Products and Completed Operations Aggregate Limit - $2,000,000, Each Occurrence - $1,000,000; (b) all risk casualty coverage for replacement value; (c) business interruption coverage; (d) owned, hired and non-owned automobile liability coverage of at least $1,000,000; and (e) worker's compensation insurance as required by your state, and Employer Liability (or Stop Gap, if applicable) coverage limits of $1.000,000. Your landlord or lender may require higher amounts of insurance or additional insurance coverage. Depending on the location of your showroom or design center, and office/warehouse or manufacturing facility (if applicable), you may be required to obtain additional insurance such as flood or earthquake coverage.

Insurance carriers must be Best's rated B+, VII or better. All insurance policies must name us as an additional insured and must contain a waiver of subrogation in our favor. You must always keep the minimum required insurance coverage in effect with no lapse in coverage. Upon 30 days’ notice to you, we may require you to increase the minimum coverage limits as of the next renewal date of any policy, and require different or additional kinds of insurance. You must comply with any changes we may periodically make to the insurance requirements. You must provide us with certificates of insurance or copies of insurance policies confirming that you are in compliance with our insurance requirements when you open your Franchised Business and each year upon renewal of your insurance policy, or if you change insurance companies, within 30 days after your new policy effective date.

Advertising

We must approve all advertising before first publication or use.

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Van Requirements

You must use an approved and properly branded vehicle in operating your business, which must be no more than three (3) years old at the time you open. The van must bear decals and be equipped and designed in accordance with our standards and specifications, including, without limitation, your entity name, phone number, and contractor's number. The van must be white, carry minimum three-quarter (3/4) ton load, and otherwise be in a clean operating condition.

Leases and Leasehold Improvements

You must purchase or lease a space for your Franchised Business that meets our standards and specifications. We must approve your location and lease terms before you sign a lease for your Franchised Business. We will condition our approval of your lease upon, among other conditions, you and your landlord's agreeing to and the signing of amendments to the lease, including signage, default, right of first refusal, and such other terms as we deem relevant to the California Closets® System. Our right of first refusal will be based on rights granted to us to assume your rights and obligations under the lease in the event that you breach your lease agreement, or your Franchise Agreement is terminated or expires. We must also approve the lease terms for any lease renewal.

Purchasing Arrangements

We have developed a system of approved suppliers and authorized distributors for items used by franchises including, without limitation prefabricated wood panels, door and drawer fronts and inserts, home and home office hardware and accessories, moldings, magnetic locks, and acrylic parts. These approved suppliers and authorized distributors may pay us a royalty based on their sales to our system, typically stated as a percentage of sales. The royalty paid to us from approved suppliers ranges from 1.5% to 3% for the approved products for which we have a vendor. In addition, we may derive revenue from selling items for which we are an approved supplier or the only approved supplier to franchisees. Currently, we offer optional showroom buildout services to our franchisees, which cost approximately $400 per day, plus expenses.

During our fiscal year ending December 31, 2023, we received revenue from the sale of products to franchisees in the amount of $2,600,650, or 5.3% of our total 2023 revenue of $48,626,970. These revenue figures include funds that we received from other suppliers based on franchisee and corporate-owned purchases. These figures are derived from purchases by franchisees from our approved suppliers.

During the fiscal year ending December 31, 2023, our affiliate, CC Fulfillment, received revenue from CC Fulfillment's manufacture and sale of products to franchisees in the amount of $2,022,170 or 4.1% of its total 2023 revenue of $49,873,329. These figures are derived by CC Fulfillment from purchases made by franchisees from CC Fulfillment.

None of our officers owns an interest in any of our approved suppliers or authorized distributors.

Franchisees may voluntarily get together informally for purchasing products when the need arises for purchasing power. Other than this arrangement, there are no formal purchasing or distribution arrangements or cooperatives in our franchise community, but we reserve the right to create or require mandatory cooperative participation in the future. As noted above, we negotiate purchasing arrangements with suppliers, including price terms, for the benefit of franchisees. We do not provide material benefits to franchisees for using particular products or suppliers.

We estimate that the costs of your purchases from designated or approved sources, or according to our standards and specifications, may range from 20% to 40% of the total cost of establishing your Franchised Business and approximately 8% to 25% of the total cost of operating your Franchised Business after that time.

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ITEM 9
FRANCHISEE'S OBLIGATIONS

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

	OBLIGATIONS	SECTION IN FRANCHISE AGREEMENT	DISCLOSURE DOCUMENT ITEM
a.	Site selection and acquisition/lease	Sections 6.4, 7.1, and Exhibit E	Items 8 and 11
b.	Pre-opening purchases/leases	Sections 6.4 and 10.5	Items 7 and 8
c.	Site development and other pre-opening requirements	Sections 6.4 and 7	Items 7 and 11
d.	Initial and on-going training	Section 8	Items 7 and 11
e.	Opening	Section 6.4	Item 11
f.	Fees	Sections 2, 3.2, 5.1(g), 10, 12.2, 13.4(g), 14.6 and 17.3	Items 5 and 6
g.	Compliance with standards and policies/Operations Manual	Sections 1.3, 1.5, 4.6 and 6	Items 8 and 11
h.	Trademark and proprietary information	Recitals, Sections 1.2, 1.3, 4, 6.13, 6.14, 7.3, 10, 11.3, 15.3, 15.4, 16.3 and 17.15	Items 13 and 14
i.	Restrictions on products/services offered	Section 6	Items 8 and 16
j.	Warranty and customer service requirements	Section 6.6	Item 11
k.	Territorial development and sales quotas	Sections 1.2, 6.4, and 6.5	Item 12
l.	Ongoing product/service purchases	Section 6	Item 8
m.	Maintenance, appearance and remodeling requirements	Sections 6.4, 7.3 and 13.4	Item 11
n.	Insurance	Section 6.18	Items 6 and 8
o.	Advertising	Section 10	Items 6, 7 and 11
p.	Indemnification	Sections 4.2 and 16.3	Item 6
q.	Owner's participation management/staffing	Section 1.6, 6.16 and 8.6	Items 11 and 15
r.	Records/reports	Section 11	Item 6
s.	Inspections/audits	Section 12	Items 6 and 11
t.	Transfer	Section 13	Item 17
u.	Renewal	Section 3.2	Item 17
v.	Post-termination obligations	Section 15	Item 17
w.	Non-competition covenant	Sections 9, 13.4 and 15.5	Item 17
x.	Dispute resolution	Section 17.6	Item 17
y.	Other (describe)	Not applicable	Not applicable

ITEM 10
FINANCING

We do not offer direct or indirect financing to franchisees, but we reserve the right to do so in special circumstances, such as the sale of a franchise to a Company employee. We do not guarantee any note, lease or obligation you may make to others.

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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 Obligations: If you are a new franchisee, before you open your Franchised Business, we will:

1. Designate your Marketing Area zip codes. (Franchise Agreement - Section 1.2 and Exhibit B.)

2. Approve the location of and certain lease provisions for your Franchised Business, (Franchise Agreement - Sections 6.4 and 7.1). The factors affecting our decision include the size and layout, access to highway and major thoroughfares, visibility, traffic patterns, parking, delivery, accessibility, proximity of like businesses, population and economic growth patterns, potential customer base, proximity to residential and commercial developments, security, zoning and lease restrictions, convenience to walk-in business, and the proximity of competitors. There is no specific time limit on our decision regarding a proposed site, but we will generally approve or disapprove within 30 days after we receive all requested information. You must enter into a lease no later than 90 days after signing the Franchise Agreement. If you have not obtained an approved location within the time allowed, you will be in default, and we will have the right to terminate the Franchise Agreement.

3. Provide you with a copy of or access to the Operations Manual, which is 142 pages (Franchise Agreement - Section 1.3). We reserve the right to furnish all or part of the Operations Manual in electronic form or online. We will provide access to our Operations Manual before you sign a Franchise Agreement. The Table of Contents from our Operations Manual is attached to this disclosure document as Exhibit I.

4. Conduct the basic training portion of the initial training program (the program will continue during the first 9 months after you sign the Franchise Agreement). (Franchise Agreement - Section 8.1).

5. Provide you with standard and specifications for required furniture, fixtures, equipment, inventory, and vans. (Franchise Agreement – Section 5.1).

6. Assist you in the initial set up or converting your existing platform to the CXM platform required by us, and will provide initial training regarding the use and implementation of the CXM platform.

After the Franchised Business Opens: After the Franchised Business opens, we will:

1. Refer leads for Storage Space Services to be performed for Residential Customers in the Marketing Area if we have chosen to generate them (Franchise Agreement – Section 5.2).

2. Review your proposals to relocate your Franchised Business or open additional showrooms in your Marketing Area. (Franchise Agreement – Sections 6.4 and 7.2).

3. Maintain an extranet or other information sharing tool as we determine from time to time. We may charge fees for access to the extranet or other information sharing tools as we determine from time to time. (Franchise Agreement – Section 6.3).

4. Make available additional mandatory and optional training courses or programs for you and/or your employees, including on-site training at your Franchised Business, regional meetings, classroom seminars, and conventions that we designate from time to time in our reasonable judgment (Franchise Agreement – Section 8).

5. Modify and update the Operations Manual to reflect changes in the System and our standards and specifications (Franchise Agreement – Sections 1.3 and 6.7).

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6. Review your proposals for new products and new suppliers (Franchise Agreement – Section 6.10).

7. Administer National Accounts, to the extent we establish them (Franchise Agreement – Section 5.4).

8. Administer Joint Marketing Programs, to the extent we establish them (Franchise Agreement – Section 10.2).

9. Administer the Marketing Fund (Franchise Agreement – Section 10.3).

Opening

We estimate that the time from signing the Franchise Agreement to opening your Franchised Business will be 6 to 12 months. The time to opening will depend on a number of factors, principally including how long it takes you to obtain an approved location for your Franchised Business and to negotiate a lease. Other factors include the time needed to build out and equip the Franchised Business, to obtain a state contractor's license (if applicable), and schedule and complete your initial training. You must open your Franchised Business within 12 months from the effective date of your Franchise Agreement, and failure to open within 12 months may result in termination of the Franchise Agreement.

Advertising

Marketing Fund. We administer a marketing fund for the California Closets® brand and system ("Marketing Fund"). The Corporate Locations contribute to the Marketing Fund on the same basis as other franchisees.

Consistent with our past practice, we expect to contribute cash to the Marketing Fund in 2024. In 2023, we contributed $1,310,058 to the Marketing Fund in cash and services.

The Franchise Advisory Council ("FAC") and its committees, including various task forces, advise us on various aspects of the business. The FAC acts in an advisory capacity only. The FAC and Marketing Committee consists of members who have been nominated by franchisees and approved by our Franchise Operations team and Chief Executive Officer. We have the power to change or dissolve the Marketing Committee.

We can use the Marketing Fund for: market surveys, research and the purchase of third-party data; public relations; video, audio and brand content collateral; photo shoots; national, regional or multi-regional programs; direct mail; purchases of television, radio, search engine marketing, magazine, billboard, showrooms and other media advertising; development and administration of one or more websites or other forms of electronic and other advertising; search engine marketing and optimization programs; employing marketing support staff and employing consultants and marketing agencies. The purpose of the Marketing Fund is to enhance recognition of the California Closets® brand and to maximize patronage of California Closets® businesses generally. We have no obligation to spend any specific portion or minimum for the benefit of your Marketing Area, and we do not represent or guarantee that you will benefit from the Marketing Fund in proportion to your contributions. While we do not anticipate that any part of Marketing Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Marketing Fund for public relations or recognition of our brand, for the creation and maintenance of a website, a portion of which can be used to explain the franchise offering and solicit potential franchisees, and to include a notation in any advertisement indicating "Franchises Available." We may also use the Marketing Fund to engage in customer surveys.

Although we solicit input from the FAC and our franchisees, we have the final decision on all creative concepts, materials, content, endorsements, geographic markets, and media placement and allocation of advertising supported by the Marketing Fund. However, under our current Marketing Fund

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policy, if we spend less than 60% of the Marketing Fund budget on media (including SEM) during any calendar year, we will consult with the FAC Marketing Committee (see below) on the reasons for and advisability of such expenditures.

In the fiscal year ended December 31, 2023, the Marketing Fund contributions were expended as follows: national media/web/digital marketing: 75%; other brand marketing programs: 8%; marketing content production 9%; other general expenses: 13%; and GAAP based accruals: (5%), due to using Marketing Fund contributions accrued from prior fiscal years. Marketing Fund contributions that are not spent in the current fiscal year are accrued for future periods. We do not use the Marketing Fund to defray any of our general operating expenses except for salaries, administrative costs, overhead and other costs that we incur in activities reasonably related to the administration of the Marketing Fund and its programs (including outside consulting fees, costs relating to in-house marketing activities, un-reimbursed salaries and benefits for personnel dedicated to administering and/or assisting the Marketing Fund, travel associated with implementing and maintaining the Marketing Fund, conducting marketing research, preparing advertising and marketing materials and collecting and accounting for contributions to the Marketing Fund). We do not use Marketing Fund monies to market franchises.

We may spend in any fiscal year an amount greater or less than the aggregate contributions to the Marketing Fund in that year, and the Marketing Fund may borrow from us or other lenders to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus for future use by the Marketing Fund. We have the right to collect on your behalf and remit to the Marketing Fund any advertising or promotional monies or credits offered to the Marketing Fund by any supplier based on your purchases. All interest on monies contributed to the Marketing Fund will be used to pay advertising costs of the Marketing Fund before other assets of the Marketing Fund are expended.

We account for the Marketing Fund separately from our other funds. The Marketing Fund is not required to be audited annually by an outside accounting firm. Each year we prepare an annual statement of monies collected and expenses incurred, or we cause the Marketing Fund to be audited by an outside accounting firm. We have the right to cause the Marketing Fund to be incorporated or operated through any entity separate from us. We can terminate (and, if terminated, reinstate) the Marketing Fund on 30-days' notice or under the policies that we periodically determine.

All advertising supported by the Marketing Fund must have our approval, must utilize our creative designs and images, and must display the toll-free telephone number, Franchised Business location, website address, and other information we designate. The toll-free number is linked to a routing system that will direct customer inquiries to the appropriate franchisee. Where appropriate, in our reasonable judgment, we will identify you as a “participating franchisee” in certain advertising materials. Other than as specifically set out in the Franchise Agreement, we assume no liability or obligation to you with respect to the maintenance, direction, or administration of the Marketing Fund.

Joint Marketing Programs. We have the right to establish various types of cooperative marketing programs (“Joint Marketing Programs”) for California Closets® businesses in a particular region or market area. We have discretion to define the size and extent of the region. These programs may include: (1) co-marketing programs in which we and our franchisees join with suppliers, home builders, retailers, and other third parties to cross-promote goods and services; (2) local joint marketing efforts in which multiple franchisees contribute to a specific ad or event; and/or (3) local or regional marketing co-operatives (“Marketing Co-ops”) that pool funds of franchisees on an ongoing basis to jointly promote the brand and the members' business.

You must participate in any Joint Marketing Program we establish in your region or market area. If we establish a Marketing Co-op in your area, you may be required to contribute amounts for advertising or promotion within the region, as determined by the Marketing Co-op, provided the decision is approved by a majority vote at a meeting of the members. Each participating franchisee will have one vote in making decisions of the Marketing Co-op, regardless of the number of franchises owned by the participant. We have the right to establish reasonable procedures for calling and conducting meetings, notices to the participants, and other procedural matters.

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Local Advertising. You must spend at least 5% of Revenues annually on local marketing of your business or the unexpended amounts shall be remitted by you to us as Royalty at the end of each calendar year. Joint Marketing Programs count toward this requirement. Prior to signing the Franchise Agreement and each calendar year during the Term, you and we shall meet at least ninety (90) days prior to the end of the then-current calendar year to review and agree upon your required minimum Local Advertising Expenditure for the following calendar year. Your required Local Advertising Expenditure for the then-upcoming calendar year will be determined and mutually agreed upon based on your performance in achieving the then-current growth metrics. On or before December 1st of each year, you must submit to us for our review your proposed marketing plan in support of your growth metrics for the next calendar year. You and we will meet to review the marketing plan on a monthly and quarterly basis during the calendar year and to discuss adjustments to your Local Advertising Expenditure, if necessary.

If your Revenues exceed by more than 10% of your growth metrics prior to the end of the then-current calendar year, you may request a reduction to your Local Advertising Expenditure. If your request is approved by the President of Franchising, such reduction shall remain in place until the earlier of: (i) your Revenue falls below your growth metrics; or (ii) the expiration of the then-current calendar year. If your Revenues fall below your growth metrics at any time during the then-current calendar year, you must immediately increase your Local Advertising Expenditure in such amounts and for such time as necessary to meet or exceed your growth metrics.

You must exclusively use our designated and approved creative brand materials and images and obtain our prior written approval of all brand communications, including, but not limited to, advertising, web efforts, public relations efforts, and particularly in trade and home shows, promotional materials and programs that you propose to use, regardless of whether it displays our Trademarks. You must comply with our requirements with regard to content and media selection, including local and national programs. You are not permitted to have your own microsite or website.

Technology Platform

You must have a technology platform and computer hardware capable of efficiently running the software that we require you to use and an operating system that meets any security standards that we may require. We also require a broadband Internet connection for access to our extranet and other programs, a CXM platform to track, store, and report data with respect to customer leads, scheduling of consultations, customer contracts, installations, payments, commissions and expenses, and CAD software to generate, store, and report data on the design, production, and installation of customer jobs.

We will have independent access to the data on your technology platform, and we will download data regularly. There is no contractual limitation on our right to access this data. As noted previously, we may require that you use an extranet for reporting, training, and other purposes as we determine from time to time. We have the right to change the available features and the terms of use of any extranet or to discontinue it altogether.

The cost of purchasing hardware, software and the CXM platform along with the standard office programs is noted in Item 7. We do not yet have reliable costs of system maintenance, updating, upgrading, and support. We have no obligation to provide ongoing maintenance, repairs, upgrades, or updates, other than the hosting of CC Dashboard on Company webservers. We can require you to update or replace your system and software versions. There is no contractual limitation on the frequency or cost of this obligation.

Website and Internet Presence

You must have and maintain adequate hardware and software to access the Internet at the bit speed we require from time to time. We have the right, but not the obligation, to establish and maintain a website that provides information about the System and the products and services offered by franchises. If we exercise our right to create such a website, we will have sole discretion and control over such website We also have the right, but not the obligation, to create interior pages on our website(s) that contain information about your Franchised Business and other franchises. If we do create such a page, we may

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require you to prepare all or a portion of the page for your Franchised Business, at your sole expense, and may require you to use a template that we provide.

We must pre-approve in writing any social media platform, page, or media that you would like to participate in or otherwise utilize. You are solely responsible for managing and maintaining all local social media platforms, pages, or media we pre-approve. You may not use, post, reference or otherwise mention or tag any Trademark, the System, in whole or in part, or your Franchised Business with, on, in, or in connection with any platform, page, or other media not pre-approved by us in writing. We currently recommend participation on Facebook®, Instagram®, and/or YouTube®. If you do create local social media pages, we require that you: (i) establish and operate such social media page or other site in accordance with our standards and specifications; (ii) utilize any templates we provide to you to create and/or modify such pages and site(s); (iii) actively manage the pages and sites so they do not become outdated; and (iv) respond in a timely manner to any customer messages sent to your local profile. You acknowledge that copyright protection in all works of authorship fixed by you in any tangible medium of expression in connection with your use of the System and operation of the franchise vests with us at the time of creation. You will irrevocably assign to us all right, title and interest that you may have now or in the future in any domain name or social media or networking site (including, but not limited to, identity, followers or content) that you utilize in the operation of the Franchised Business, regardless of whether the domain name or use of the site was approved by us. You shall bear the expense of any assignments to us.

We have the right to modify our policies regarding both our and your use of Internet websites as we deem necessary or appropriate for the best interests of the System. (Franchise Agreement, Section 10.4). We are currently the sole registrant of the domain name www.californiaclosets.com and we or our affiliate will be the sole registrant of any other domain names we decide to register in connection with the System in the future. The Yext® subdomain, https://www.locations.californiaclosets.com, is owned and managed by Yext under our direction. You are prohibited from registering any domain name that contains words used in, or similar to, any Trademark owned or used by us or our affiliate, our licensors, or any colorable variation thereof (including any abbreviation, acronym, phonetic variation or visual variation).

Computer Network (Intranet or Extranet)

You are required to participate in any System-wide computer network, intranet system, or extranet system that we implement and may be required to use the computer network, intranet system, or extranet system to, among other things: (i) submit your reports due under the Franchise Agreement to us on-line; (ii) view and print portions of the Operations Manual; (iii) download approved local advertising materials; (iv) communicate with us and other System franchisees; and (v) to complete initial or ongoing training as we designate.

Training

We will provide you and up to 2 additional persons with initial training. If you are a corporation, limited liability company, or other business entity, one of the trainees must be your general partner, managing member, or shareholder, as applicable. If you designate a manager to manage the day-to-day operations of your Franchised Business, your manager must also attend training. The initial training program consists of: (i) completion of our basic training program; and (ii) approximately 5 days with a mentoring franchisee in the mentor's Marketing Area. As a component of the initial training program, there are regular development calls with your basic training coordinator. You must complete the basic training requirements within 9 months after signing the Franchise Agreement. We will also provide up to 3 trainees with the required initial manufacturing certification training. The individuals who attend initial manufacturing certification training are not required to be the same individuals who attend the remaining portion of the initial training program.

We schedule training on an as-needed basis, at our discretion and in accordance with other franchise training obligations. For new franchises, training costs are covered by the Training Fee. If you purchase the business of an existing California Closets® franchise, you must pay us the Training Fee. In all cases, you are responsible for the costs of travel, food and lodging for your trainees.

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The initial training program is provided on a number of topics, including management and leadership, sales, design, installation, use of technology, financial management, marketing, and process flow/customer service.

Content of the initial training program and its delivery method will be customized to the needs of the Franchised Business. Delivery methods include eLearning, telephone conferences, independent study, on-site, attendance at regional sessions, mentorship, and national conventions. Based on the size of your Franchised Business you may be required to travel to attend training sessions. All travel expenses for these opportunities will be borne by the franchisee. Cancellation of attendance with less than 3 weeks' notice where travel is required may be subject to a cancellation fee. A summary of your training program is set forth below.

For each subject covered in training, we draw instructors from the relevant Company teams. All instructors have at least 6 months of experience with the Company's business and in their respective areas of expertise. Many have worked as a design consultant, sales manager and/or production manager for franchisees in our network. In addition, the instructors receive training by outside training organizations and by vendors of products and software recommended or required by the Company. Aleeshya Broome, the National Training Program Manager, is responsible for designing and updating the courses in the training program. Aleeshya has been with us since August 2022.

TRAINING PROGRAM

SUBJECT	HOURS OF CLASSROOM OR LONG-DISTANCE TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION
System Overview	5	0	Online
Facilitative Sales	20	24	Online, Classroom and/or Franchisee's location
CAD	30	4	Online, Classroom and/or Franchisee's location
Design	20	4	Online, Classroom and/or Franchisee's location
CXM Platform	8	4	Online, Classroom and/or Franchisee's location
Brand Experience	4	2	Online, Classroom and/or Franchisee's location
Business and Trade Development	2	2	Online, Classroom and/or Franchisee's location
Installation Coordination	20	24	Online, Classroom and/or Franchisee's location
Complexity Meetings and Pre-Production	4	2	Online, Classroom and/or Franchisee's location

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SUBJECT	HOURS OF CLASSROOM OR LONG-DISTANCE TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION
Proper Job Costing	5	5	Online, Classroom and/or Franchisee's location
Go-Back/Measurement for Accuracy	4	2	Online, Classroom and/or Franchisee's location
Design Studio Operations	4	2	Online, Classroom and/or Franchisee's location
Phone and Follow Up	2	2	Online, Classroom and/or Franchisee's location
Products and Offerings	16	4	Online, Classroom and/or Franchisee's location
Administrative and Process Flow	8	8	Online, Classroom and/or Franchisee's location
Initial Manufacturing Certification (materials procurement, inventory management, and logistics)	10	30	By telephone, Regional or Franchisee's location

Our training managers may utilize other team members to assist them with all aspects of training. You must complete our initial training program to our satisfaction at any time prior to opening your Franchised Business. Failure to complete initial training to our satisfaction within the applicable time period may result in termination of the Franchise Agreement.

We will also make available to you online training programs on topics including, but not limited to, management, coaching, conflict resolution and goal setting and review (GS&R). These are optional training courses that you may take at any time.

Other than as required in your Franchise Agreement, your employees may be trained by you, or at your request, and subject to the availability of our team members. All training related expenses for your additional employees, including transportation to and from the training site, lodging, meals, and salaries during training, are your sole responsibility. We will provide you with training materials for you to use in training your employees. You may only use the training materials we provide you with to train your employees. Updated training materials will be provided to you as they are developed. All training materials provided to you are our property, and you agree not to challenge our or our affiliates' title or rights in or to the training materials. You may not make any disclosure, duplication, or other unauthorized use of any portion of the training materials.

ITEM 12
TERRITORY

You must operate your Franchised Business from a location we approve ("Approved Location"), which will be identified in your Franchise Agreement. If you have secured an Approved Location for your Franchised Business at the time you sign the Franchise Agreement, you will establish your Franchised Business at that Approved Location. If you have not yet secured an Approved Location at the time you sign the Franchise Agreement, you will enter into our Site Selection Addendum, attached as an exhibit to the

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Franchise Agreement, which will govern the site selection process. You may relocate your Franchised Business only with our prior written approval, if the proposed new location meets our then-current criteria.

Except as otherwise provided in and during the term of the Franchise Agreement, so long as you comply with the terms and conditions of the Franchise Agreement, we will grant you a protected territory, otherwise referred to in this disclosure document and the Franchise Agreement as your Marketing Area within which you will have the exclusive right to market the Storage Space Services and Organizational Accessories offered by your Franchised Business. Generally, your Marketing Area will have a population of at least 60,000 individuals. The geographic boundaries of your Marketing Area will be delineated by zip codes, and municipality or county boundary lines.

We will not permit other franchisees to market their Franchised Businesses within your Marketing Area. You cannot build a showroom outside your Marketing Area. We, our affiliates, and other California Closets® franchisees with our prior written approval, may provide Storage Space Services, Organizational Accessories and Manufacturing Services to customers located within your Marketing Area without compensating you. You will be prohibited from marketing your Franchised Business outside of your designated Marketing Area. You will not receive an exclusive Marketing Area. 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 may not solicit customers and/or advertise outside your Marketing Area or deliver any products or services to any destination outside your Marketing Area without our prior written consent. You may, however, accept customers from outside your Marketing Area, provided that: (a) you did not obtain the customer by marketing outside your Marketing Area; (b) the customer is not located within the Marketing Area of another California Closets® franchisee; and (c) you have obtained our prior written approval. If we do give you our written consent to provide sales and service, including warranty service, to a territory outside of your Marketing Area ("Service Territory"), the following terms and conditions will apply: (i) you will not have the right to open a showroom in the Service Territory; (ii) you will not have exclusive rights to the Service Territory; and (iii) we have the right to sell the Service Territory to a franchisee or operate it as a corporate territory owned by us or one of our affiliates at any time without requesting your prior consent or providing you with a right of first refusal.

You must meet or exceed your yearly market share by increasing your installed Revenue in your Marketing Area, referred to as your growth metrics. Your growth metrics will be mutually agreed upon by you and us each year or another time period designated by us, but not less than yearly and will be based on, without limitation, customer demographics and market data. If you fail to meet the growth metrics, we may (i) reduce the size of your Marketing Area to a population level that more closely reflects your actual productivity level, or (ii) terminate your Franchise Agreement if the growth metrics are not met within the cure period.

If you choose to avoid termination by reducing the size of your Marketing Area, you must sign an amendment to your Franchise Agreement that specifies the reduced boundaries of the Marketing Area and the new minimum level of Revenues. We will not compensate you for the portion of the Marketing Area you lose, and we have the right to sell the geographic area you lose to a new or existing franchisee. If we sell a portion of your former Marketing Area to another franchisee, you must turn over to the new franchisee all contracts or business and prepaid fees that you received from customers you previously serviced who are not located in your reduced Marketing Area.

Customer Leads

We retain the right, but not the obligation, to solicit customer leads at any location and by any means, including displays in home centers and other businesses, catalogs, our website or any other online or web related activity, direct mail, broadcast (television and radio), and telephone sales. With respect to any lead generation program we offer, you agree to our standard terms and conditions of each such program, including SEM or other national purchasing or bidding programs we may operate. You may not

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use a method or program for collecting leads and storing lead data that has not been pre-approved by us in writing.

If we obtain a lead for Storage Space Services to be performed for a Residential Customer in the Marketing Area, we will first refer the lead to you. We may also refer you leads for non-residential customers in the Marketing Area, though we have no obligation to do so. We may charge you the fee we are charged from the lead generator service for each lead you accept from us. If you refuse to service a lead on the terms and conditions we specify, or the lead requests that we or our designee service the lead, or if you fail to maintain our standards in providing services to the lead, we have the right to service the lead directly or to designate another entity to service the lead.

The boundaries of your Marketing Area will not change, even if the population within your Marketing Area increases or decreases, during the initial term of your Franchise Agreement.

Customer Satisfaction

You and all of the employees of the Franchised Business must comply with the customer experience and satisfaction requirements, as well as all warranties, set forth in the Operations Manual from time to time. These include, without limitation, response time to address customer inquiries, complaints and return visits. We may survey customers in the manner set forth in the Operations Manual to obtain your net promoter score ("NPS") which we use to determine customer satisfaction levels. You will be required to maintain a minimum NPS.

Branded Storage Products and Accessories

We also retain the right to market, sell, and license others to market and sell storage and organizational products in the Marketing Area, including "ready to assemble" products, and Organizational Accessories bearing the California Closets® Trademarks to any customer whether located within or outside of the Marketing Area. We can market and sell these products to any customer by any means of distribution, including independent distributors, retail chains or outlets, mail, telephone orders, catalog sales, and internet or web-based sales, or otherwise. You have no right to receive any compensation from any of branded storage products and Organizational Accessories sales made in your Marketing Area.

We also retain the right to operate and grant others the right to operate businesses located outside the Marketing Area offering Storage Space Services or "do-it-yourself" storage systems under the Trademarks on such terms and conditions we deem appropriate, except that such businesses will not perform installations of customized storage systems under the Trademarks for Residential Customers within the Marketing Area.

Other Rights Reserved to Us

We also retain the right to use and license the use of alternative proprietary marks or methods in connection with the operation of storage space solution, products, and/or accessories businesses or other businesses under names which are not the same as or confusingly similar to the Trademarks, which businesses may be the same as, or similar to, or different from the Franchised Business, without regard to location. However, as of the date of this disclosure document, neither we nor any affiliate of the Company has established other franchises or company owned outlets or another channel of distribution selling or leasing similar products or services under a different trademark.

We also retain the right to acquire, be acquired by, or merge with any company, including a company that operates storage space solution and/or storage space product businesses, and to convert the company's business locations to the California Closets® Trademarks and System, even if located or operating within your Marketing Area.

National Accounts

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We have the right (but are not obligated) to negotiate with National Accounts for the provision of products and services by all California Closets® businesses. If we negotiate terms for any National Account, then you must provide the products and services to the National Account on those terms. If we designate maximum prices for these products and services, you may charge any prices you wish to the National Account up to and including those maximum prices. A "National Account" is any entity (like a company or a government agency) that owns, operates, controls, or represents multiple locations at which Organizational Accessories are provided and/or Storage Space Services are performed. We have the right in our sole discretion to service any National Account directly or indirectly through any means.

Non-Residential Services

The franchise granted through this disclosure document is for the right to offer and sell residential and non-residential or commercial services. You may provide non-residential services, including Storage Space Services and Organizational Accessories for any office buildings, commercial properties, and any properties other than residential dwellings ("Non-Residential Services"); provided, however, that: (1) if the aggregate revenue from the project is $500,000 or more, you obtain our prior written approval to provide the services, and (2) the location of the project is within a 200-mile radius of your Marketing Area. The right to provide Non-Residential Services is non-exclusive, and we or our affiliates and licensees and franchisees may offer and market Non-Residential Services under the Trademarks or any other marks, regardless of location.

Certification Programs

We reserve the right, but are not obligated to, to establish one or more "Certificate Programs" through which franchisees may be authorized to offer, sell, and perform new and additional services not specified in the Franchise Agreement that we may designate in the future in connection with the System. In order to provide such services, you must meet the eligibility requirements of the individual Certificate Programs and sign a Certificate Program Services Addendum, which may include: (a) additional program fees, advertising fees, and/or Royalties and performance requirements; (b) additional insurance coverage requirements, (c) additional training requirements; and (d) the payment of a Certificate Program participation fee.

You may not enter into contracts to perform Certificate Program services with third parties or other system franchisees without our written permission. If you are unwilling or unable to participate in a Certificate Program, we, our affiliates, other System franchisees, or third-party designees may market and perform Certificate Program services within your Marketing Area without compensating you.

ITEM 13
TRADEMARKS

The primary Trademarks that you would use as our franchisee are listed below. The Company has registered the Trademarks on the Principal Register of the U.S. Patent and Trademark Office. These are not necessarily all of the marks that the Company owns or would permit you to use.

Trademark	Registration No.	Registration Date	Register
CALIFORNIA CLOSETS	1,613,365	Sept. 11, 1990	Principal
SIMPLIFYING HOME AND LIFE	2,853,226	June 15, 2004	Principal
CALIFORNIA CLOSETS (STYLIZED)	3,358,463	Dec. 25, 2007	Principal
LAGO	3,654,206	July 14, 2009	Principal
SIMPLIFY YOUR LIFE	1,915,339	Aug. 29, 1995	Principal

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Trademark	Registration No.	Registration Date	Register
DESIGNING BETTER LIVES	5,162,171	March 14, 2017	Principal
IDEAS OF ORDER	5,863,561	Sept. 17, 2019	Principal

In addition, the Company has filed an application to register the below service mark on the Principal Register of the U.S. Patent and Trademark Office. We do not have a federal registration for the below Trademark. Therefore, the below Trademark does not have as many legal benefits and rights as a federally registered trademark. If our right to use the Trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

Service Mark	Serial No.	Application Date	Register
PRACTICAL MAGIC	98154946	Aug. 29, 2023	Principal

There are no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, any pending infringement, opposition or cancellation proceeding, or any pending material litigation involving the above Trademarks. All required affidavits and renewals have been filed.

There are no agreements currently in effect which significantly limit our right to use or license the use of the Trademarks in any manner material to the Franchised Business.

You must promptly notify us of any suspected unauthorized use of the Trademarks and Proprietary Material (as defined below), any challenge to the validity of the Trademarks, or any challenge to our ownership of, our right to use and to license others to use, or your right to use, the Trademarks, any designated proprietary material, and the Operations Manual (collectively, "Proprietary Material"). We have the sole right to direct and control any administrative proceeding or litigation involving the Proprietary Material, including the right to settle the proceedings or litigation. We have the exclusive right, but not the obligation, to affirmatively prosecute actions against third parties for infringement or threatened infringement of the Proprietary Material.

We will defend you against any third-party claim, suit, or demand arising out of your use of the Proprietary Material. If we, in our sole discretion, determine that you have used the Proprietary Material in accordance with the Franchise Agreement, we will pay the cost of defending the action, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used the Proprietary Material in accordance with the Franchise Agreement, you must pay for the defense or reimburse us for costs we incurred in providing the defense, including, without limitation, attorneys' fees, expert fees, and the cost of any judgment or settlement. In the event of any litigation relating to your use of the Proprietary Material, you must sign all documents and assist us, as we deem necessary, to carry out the defense or prosecution including, without limitation, becoming a nominal party to any legal action. We will reimburse you for your out-of-pocket costs in assisting us in defending an action relating to the Proprietary Material, unless the litigation is the result of your use of the Trademarks in a manner inconsistent with the terms of any agreement(s) you sign with us.

We know of no superior rights or infringing uses that could materially affect your use of the Trademarks.

We have the right to add to, delete or modify any of the Trademarks. You are required, at your expense, to accept, use, and cease using the Trademarks in accordance with the procedures and rules of we establish.

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You may use only the Trademarks which we designate and may use them only in the manner we authorize and permit. Any goodwill associated with Trademarks, including any goodwill which might be deemed to have arisen through your activities, inures directly and exclusively to our benefit. You may use the Trademarks only for the operation of your Franchised Business and only at the Approved Location or in advertising for your Franchised Business. You shall use all Trademarks without prefix or suffix and in conjunction with the symbols "SM," "TM," "S" or "®," as applicable. You may not use the Trademarks in connection with the offer or sale of any services or products which we have not authorized for use in connection with the System. You may not use the Trademarks as part of your corporate or other legal name. We must approve your corporate name and all fictitious names under which you propose to do business in writing before use. You must use your legal entity name, either alone or followed by the initials "D/B/A" and the trade name "California Closets." You must promptly register at the office of the county in which your Franchised Business is located, or any other public office as provided for by the laws of the state in which your Franchised Business is located, as doing business under your assumed trade name.

All of your advertising must prominently display the Trademarks and must comply with our standards for using the Trademarks. All advertising is subject to our prior written approval, which we will not unreasonably withhold. We reserve the right to approve all signs, stationery, business cards, forms, and other materials and supplies bearing the Trademarks. You may use the Trademarks, including, without limitation, trade dress, color combinations, designs, symbols, and slogans, only in the manner permitted by the Franchise Agreement or by our prior written consent. You must submit to us and we must approve all advertising, publicity, signs, decorations, furnishings, equipment or other materials employing the Trademarks, or related marks, before first publication or use. We will not unreasonably withhold our approval. You must identify yourself as the owner of the Franchised Business (in the manner we prescribe) in conjunction with any use of the Trademarks, including, without limitation, on invoices, order forms, receipts, and business stationery, or any conspicuous locations at the Approved Locations of your Franchised Business as we may designate in writing.

ITEM 14
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

There are no patents that we consider material to the operation of the franchised business.

We have registered the following copyrights:

TITLE OF WORK	REGISTRATION NUMBER	REGISTRATION DATE	DURATION
2012 Product Photo Shoot-Part 1	VAu001113193	June 28, 2012	95 years
2012 Product Photo Shoot-Part 2	VAu001107353	June 27, 2012	95 years
2013 Product Photo Shoot	VAu001146140	May 20, 2013	95 years
2015 Product Photo Shoot	VAu001233699	July 9, 2015	95 years

We also claim common law copyright protection of the Operations Manuals and all print, audiovisual and other materials we develop and distribute for use by California Closets® franchises. Your right to use the copyrighted materials is not materially limited by any agreement or known infringing use. We have no contractual obligation to indemnify you if you are made a party to any proceeding because of the common law copyrights.

Our registered and common-law protected copyrighted material are individually and collectively referred to as our "Intellectual Property." There are no current determinations, proceedings or litigation involving any of our Intellectual Property. Should you become aware that any unauthorized third party is using any of our Intellectual Property, we request that you notify us of any unauthorized use. We have the sole right to direct and control any demand, administrative proceeding or litigation involving our Intellectual Property, including any settlement. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of our rights to our Intellectual Property. We will defend you against any third-party claim, suit, or demand arising out of your use of any Intellectual Property in accordance with

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your Franchise Agreement. If we, in our sole discretion, determine that you have used any Intellectual Property in accordance with your Franchise Agreement, we will bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used our Intellectual Property in accordance with your Franchise Agreement, you will bear all costs we incur in the defense, including the cost of any judgment or settlement. In the event of any litigation relating to your use of our Intellectual Property, you agree to execute any and all documents and do such acts which in our opinion are necessary to carry out such defense or prosecution, including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of our Intellectual Property in a manner inconsistent with the terms of your Franchise Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

We may revise our System and any of our copyrighted materials in our discretion and may require that you cease using any outdated copyrighted material. You will be responsible for printing any revised or new advertising, marketing, or other business materials.

During the term of the Franchise Agreement, you will receive information which constitutes our trade secrets and confidential information. You may not, during the term of the Franchise Agreement or after its termination or expiration, communicate, divulge, or use for the benefit of any other person, partnership, association, corporation, or limited liability company any trade secrets or confidential information, including standards and specifications for providing Storage Space Services, Organizational Accessories, Manufacturing Services, or another other products and services sold through your Franchised Business; price marketing mixes for the products and services offered through your Franchised Business; site selection information; our computer hardware and software standards and specifications; supplier networks and pricing; product analysis and selection standards and procedures; copyrighted materials; or other techniques and know-how concerning the operation of your Franchised Business, including the Operations Manual (individually and collectively, “Confidential Information”). You agree that all data collected from former, existing and/or potential customers, including customer names and addresses, discounts and credit extensions to customers, customer contracts, designs, and status information, are our trade secrets and Confidential Information. Except for those matters that are generally known in the trade, the entire System constitutes the Company's trade secrets and Confidential Information.

You must maintain the absolute confidentiality of the Confidential Information both during and after the term of the Franchise Agreement. You may not reveal any of the Confidential Information to any other person or entity, except to your employees to the extent they need to know the information in connection with their duties. All of these employees must, at the Company's request, sign confidentiality agreements in the form that we designate.

If you or your employees or principals develop any improvement to the Storage Space Services, Organizational Accessories, Manufacturing Services, or any of our standards and specifications, you must promptly notify us and provide us with all necessary related information and assign us you or arrange for your employees or principals to assign all rights in and to the processes or improvements without monetary compensation. Any new concept, process, or improvement will become our sole property and we will be the sole owner of any patents, trademarks, copyrights, or intellectual property related to the concept or improvement. If this provision is found to be invalid or otherwise unenforceable, you or your principals or employees, as applicable, will grant us with a non-exclusive perpetual, royalty free license to use and sublicense use of the new process or improvement, to the extent a license is necessary to prevent infringement upon your rights.

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

We do not require you to personally supervise the Franchised Business, but we strongly recommend that you participate in its management. With our approval, you may appoint a general manager (which may be you, if you are an individual) who must have successfully completed the initial training program, and who must devote full business time and effort to the active management and operation of the

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Franchised Business. If at any time after your completion of the basic training program, you decide to appoint a general manager to manage the Franchised Business, provided that we have approved all such appointments, the general manager will need to complete the basic training to our satisfaction, and you will be required to pay the then-current training fee. If a designated manager resigns or is otherwise terminated, you must hire a replacement approved by us in writing who meets our then current standards for managers and who is approved by us in writing before hiring within 30 days after the resignation or termination of the former general manager. Any replacement general manager must complete initial training to our satisfaction within 60 days after being hired, subject to the availability of our team members, before assuming the general manager role.

If you are a legal entity, all partners, shareholders, or members and their spouses must sign the Guaranty and Assumption of Franchisee's Obligations which is attached to the Franchise Agreement. By signing the Guaranty and Assumption of Obligations, your owners and their spouses personally and unconditionally guarantee full performance and payment of all your obligations under the Franchise Agreement and the owners' spouses will be jointly and severally liable for all obligations under the Franchise Agreement. The owners also agree to be personally bound by the Franchise Agreement (including the noncompete and confidentiality provisions) and personally liable for any breach.

In addition, you and all of your employees must undergo a criminal background check. You and your employees must routinely undergo criminal background rescreening, subject to federal, state and local laws. We have the right to terminate the Franchise Agreement immediately in the event you fail to meet our criteria for a clean criminal background check.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

Only Authorized Products and Services. You must offer and sell to the public all products and services which we designate as mandatory. You are prohibited from offering or selling any products or services not authorized by the Company. We are not limited in our right to change the types of authorized products and services. You cannot use any fixtures, furnishings, signs, inventory, or equipment that do not meet our standards and specifications in connection with your operation of your Franchised Business.

Residential Customers. You may sell Storage Space Services to Residential Customers. Nevertheless, you can provide Non-Residential Service if the aggregate estimated revenue from the project is less than $500,000 and the location of the project is within a 200-mile radius of your Marketing Area; or (1) if the aggregate revenue from the project is $500,000 or more, you obtain our prior written approval to provide the services, and (2) the location of the project is within a 200-mile radius of your Marketing Area. The right to provide Non-Residential Services is non-exclusive, and we or our affiliates and licensees and franchisees may offer and market Non-Residential Services under the Trademarks or any.

Customer Leads. By accepting a customer lead that we refer to you, you agree to abide by all terms we have negotiated, which may include maximum prices for certain products and services and/or the payment to a third party of a commission on purchases by the lead.

Within the Marketing Area Only. You may only advertise your Franchised Business and offer and sell design and installation services within your Marketing Area, as applicable, and may not provide such services outside of your Marketing Area without our prior written permission.

Operating Capital and Customer Deposits. During your first year of operation, you will maintain operating capital equal to at least 5% of the estimated and agreed upon installed Revenue, plus the amount of current customers' deposits. After your first year of operation, you must maintain operating capital, including established and unused lines of credit, equal to at least 5% of your prior year's installed Revenues, plus the amount of current customers' deposits. To protect customers, your operating capital at all times must exceed the amount of customer deposits you have collected from customers. You must deposit on reserve each customer deposit you receive until all work has been completed with respect to the deposit. Customer deposits may not be used for operating capital; they must be classified as a current liability

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(deferred revenue) on your balance sheet and not recognized as revenue until the work for the customer is substantially completed. For purposes of this Section, the term "substantially completed" means that the closet(s) and/or other storage system(s) are sufficiently complete to the point where the customer can use the closet(s) and/or other storage system(s) for their intended use with the exception of minor items such as accessories and/or special-order items to be completed separately.

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists important provisions of the Franchise Agreement and related agreements. You should read these provisions in the sample agreements attached to this disclosure document.

THE FRANCHISE RELATIONSHIP

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Term of the franchise	Section 3.1	10 years.
b. Renewal or extension of the term	Section 3.2	Can be renewed for additional 10-year terms, subject to renewal conditions and our approval.
c. Requirements for you to renew or extend	Section 3.2	Conditions include: submit business plan at least 60 days prior to renewal term; pay renewal fee; you are not in default under the Franchise Agreement; you have satisfied all monetary obligations to us, our affiliates, and designated suppliers; you have satisfied performance criteria in each of the two most recent performance reviews; you sign our then-current form of franchise agreement and a general release; you demonstrate you have the right to continue operating from the Approved Location; you complete all mandatory maintenance and upgrades; you have demonstrated you have the financial resources to expand the business by opening additional Showrooms; and you complete all required training. When renewing, you may be asked to sign a contract with materially different terms and conditions than your original contract. We also have the right to redefine the Marketing Area, provided that we use the same criteria as for other similarly-situated franchises.
d. Termination by you	None	Not applicable.
e. Termination by us without cause	Not Applicable	None, but the Franchise Agreement expires without notice when the term ends.
f. Termination by us with cause	Section 14	We have the right to terminate the Franchise Agreement with cause.
g. Cause - defined defaults which can be cured	Section 14.3 and 14.4	We provide a 15-day notice and opportunity to cure the following defaults: failure to pay amounts owed to us or our affiliates or suppliers in a timely manner, failure to deliver any third party payments due to us, failure to commence operations within the time frame prescribed in the operations manual, failure to maintain our quality control standards, failure to adequately supervise store operations, if you engage in conduct adverse to

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PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		the System, failure to maintain licenses, failure to maintain a designated bank account and provide us with access to that bank account, and failure to offer and sell approved products and services. We will provide a 30-day opportunity to cure any other defaults under the Franchise Agreement. If the breach is curable but is of a nature that cannot reasonably be cured within 30 days and you have commenced and are continuing to make good faith efforts to cure the breach, you may be given an additional reasonable period of time to cure the default.
h. Cause - defined defaults which cannot be cured	Section 14.1	We will automatically terminate the Franchise Agreement if: you make an assignment for the benefit of creditors, file for bankruptcy, are adjudicated bankrupt or insolvent, proceedings are brought against you for bankruptcy, you fail to meet the required minimum level of Revenues, or you make an unauthorized transfer of the Franchised Business or any interest in it.
	Sections 14.2	We will terminate the Franchise Agreement upon notice to you, but without providing an opportunity to cure if you: are convicted of a felony, make any misrepresentations in your application materials, commit fraud in the operation of the Franchised Business, fail to complete training, if we send you 3 or more written notices of default in any 12 month period, misuse our Trademarks, Proprietary Materials or Confidential Information, materially breach any other agreement with us or our affiliates, violate a law or regulation that presents a health or safety hazard to customers or the general public, violate the in-term non-compete covenant, you become insolvent or any levy or lien is placed against the assets of the Franchised Business, you abandon the Franchised Business, you fail to maintain adequate insurance, fail to comply with any notice of non-compliance issued by any government agency, if a government action is taken against you, understate your Royalties by more than 5% or fail to submit reports when due for any 2 reporting periods in any 12-month period, fail to ensure that there are sufficient funds for us to collect amounts owed to us 3 or more times in any 12-month period; fail to meet the Minimum Royalty Fee for 3 months in a 12-month period.
i. Your obligations on termination or nonrenewal	Section 15	Obligations include: Pay all sums you owe us; discontinue using the Trademarks; discontinue use of and maintain confidentiality of our Confidential Information; cease holding yourself out as our franchisee and return to us the Operations Manual and all other manuals, Proprietary Information, and Confidential Information; comply with your post-termination non-compete obligations; cease operating your Franchised Business and, at our option, assign your lease to us or de-identify your Franchised Business, cease using and assign to us all customer and supplier lists; assign your telephone number, telephone listings, and Internet listings to us; cease using in advertising or in any other manner any methods, procedures, or techniques associated with us or the System; allow us to inspect your books and records; and sign

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PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		any papers, documents, and assurances necessary to effectuate a termination or non-renewal.
j. Transfer of contract by the Company	Section 13.1	No restriction on our right to assign.
k. Transfer by you – definition	Sections 13.2 and 13.3	Transfer restrictions apply to assignment or pledge of the Franchise Agreement, sale or pledge of the assets of the Franchised Business, transfer or pledge of capital stock or partnership or membership interest or right to receive profits or losses, merger or issuance of additional securities, or transfer of any ownership interest in you or any of your owners.
l. Our approval of transfer by you	Section 13.4	Our approval is required for all transfers (voluntary or involuntary, direct or indirect, by sale or gift, death or disability, divorce or bankruptcy, etc.).
m. Conditions for approval of transfer	Sections 13.4 and 13.9	Conditions include: We decline right of first refusal; transferee qualifies based on business experience, aptitude and financial resources to operate the Franchised Business, and the transferee's business model is a fit with the California Closets® brand and our System; you are in good standing; transferee has no interest in a competing business; each of your landlords approves the transfer of your Approved Location; transferee signs then-current franchise agreement and any other agreement documenting the assignment and assumption containing a mutual release, assumption of warranty obligations, clarifying term for remainder of transferred franchise agreement, if applicable, transferee completes training program; transferee assumes outstanding advertising commitments; we receive the transfer fee and then-current training fee; purchase price and payment terms will not adversely affect transferee's operation of the Franchised Business; you agree to subordinate any financing you extend to the payment of Royalties and other amounts due us; transferee agrees to upgrade and remodel Approved Locations within a specified time; you honor your noncompete obligations; you and all other transferring owners sign release.
n. Our right of first refusal to acquire your business	Section 13.9	We have the right to match any offer from a third party. We will have 30 days from our receipt of an exact copy of the offer to exercise our right, and no less than 60 days to prepare for closing. Right reactivates if transfer to 3rd party is not completed within 120 days or if terms change.
o. Our option to purchase your business	None	Upon termination or expiration of the Franchise Agreement, we have the right to purchase certain manufacturing equipment at fair market value.
p. Your death or disability	Section 13.6	Your executor or personal representative must transfer your interest within 9 months after your death or disability. We have the right to manage the business (or appoint a third-party manager) pending transfer.
q. Non-competition covenants during the term of the franchise	Section 9	No involvement with a Competitive Business (defined as any business offering customized storage and organizational services and/or "do-it-yourself" products; any retail business that sells customized storage and organizational services and/or standard or ready-to-assemble storage products and/or

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PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		Organizational Accessories; and any business that franchises or licenses the foregoing).
r. Non-competition covenants after the Franchise Agreement are terminated or expires	Section 15.5	No involvement with a Competitive Business for 2 years after our termination of your Franchise Agreement, your termination without cause, expiration without successor franchise, or your transfer of your Franchised Business to new owner. Applies within the Marketing Area and within the Marketing Area of any then-operating California Closets® franchisee or affiliate-owned store.
s. Modification of the Franchise Agreement	Sections 1.3 and 17.13	Changes to the Franchise Agreement must be in writing and signed by an authorized representative of both parties. However, we can modify the Operations Manual and standards and specifications as provided.
t. Integration/ merger clauses	Section 17.13	Only the written terms of the Franchise Agreement are binding; you may not rely on prior agreements or oral promises, which may not be enforceable. Any representations or promises made outside of this franchise disclosure document and the Franchise Agreement may not be enforceable. Nothing in this or any related agreement, however, is intended to disclaim the representations made by us in the franchise disclosure document that was furnished to you by us. Subject to state law.
u. Dispute resolution by arbitration or mediation	Section 17.6	You must bring all disputes to our attention prior to bringing a claim before a third party. After exhausting this internal dispute resolution procedure, at our option, all claims or disputes between you and us must be submitted first to mediation in Phoenix, Arizona in accordance with the American Arbitration Association's Commercial Mediation Rules then in effect (subject to applicable state law).
v. Choice of forum	Section 17.6	Disputes must be resolved in the federal or state courts in Maricopa County, Arizona, and both parties consent to the jurisdiction of and venue in those courts (subject to applicable state law).
w. Choice of law	Section 17.5	Except for federal trademark law and other federal law, the law of the state where the Franchised Business is located applies (subject to applicable state law).

ITEM 18
PUBLIC FIGURES

We do not use any public figures to promote our franchises.

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 affiliate-owned outlets if there is any reasonable basis for the information and, if the information is included in the disclosure document. Financial information that differs from that included in Item 19 may only be given if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

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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 April Broome, President Franchise Operations, at 2001 W. Phelps Rd., Suite 1, Phoenix, AZ 85023, telephone number (877) 504-6027, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

TABLE 1
Systemwide Outlet Summary
For Years 2021 to 2023

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 (Note 1)	2021	41	39	-2
	2022	39	39	0
	2023	39	37	-2
Affiliate-Owned (Note 2)	2021	18	21	+3
	2022	21	21	0
	2023	21	24	+3
Total Outlets (Note 3)	2021	59	60	+1
	2022	60	60	0
	2023	60	61	+1

Notes:

1) One of the franchised locations operates their business under the DSI model and the remaining 36 franchised locations operate as Manufacturing franchises.

2) All of the affiliate-owned, also known as Corporate Locations, are operated under the DSI model.

3) Totals adjusted to reflect the combination of Franchised Businesses in certain Marketing Areas due to transfers from franchised to Corporate Locations.

TABLE 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2021 to 2023

Column 1 State	Column 2 Year	Column 3 Number of Transfers
All states	2021	0
	2022	0
	2023	0

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Column 1 State	Column 2 Year	Column 3 Number of Transfers
TOTAL	2021	0
	2022	0
	2023	0

TABLE 3
Status of Franchised Outlets
For years 2021 to 2023

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termina-tions	Column 6 Non-Renewals	Column 7 Reacquired by Affiliate	Column 8 Ceased Operations-Other Reasons	Column 9 Outlets at End of the Year
CA	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
CT	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
FL	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
HI	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
IN	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
KS	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
KY	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
LA	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
MI	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
MN	2021	1	0	0	0	1	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
MO	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
NV	2021	1	0	0	0	0	0	1

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Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termina-tions	Column 6 Non-Renewals	Column 7 Reacquired by Affiliate	Column 8 Ceased Operations-Other Reasons	Column 9 Outlets at End of the Year
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	1	0	0
NJ	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
NM	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
NY	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
NC	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
OH	2021	4	0	0	0	0	0	4
	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	0	4
OK	2021	1	0	0	0	1	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
OR	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	1	0	0
PA	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
PR	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
SC	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
TN	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
TX	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
VA	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
WA	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1

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Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Termina-tions	Column 6 Non-Renewals	Column 7 Reacquired by Affiliate	Column 8 Ceased Operations-Other Reasons	Column 9 Outlets at End of the Year
	2023	1	0	0	0	0	0	1
Total	2021	41	0	0	0	2	0	39
	2022	39	0	0	0	0	0	39
	2023	39	0	0	0	2	0	37

TABLE 4
Status of Company/Affiliate-Owned Outlets
For years 2021 to 2023

Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Outlets Reacquired From Franchisees	Column 6 Outlets Closed	Column 7 Outlets Sold to Franchisees	Column 8 Outlets at End of the Year
AZ	2021	2	0	0	0	0	2
	2022	2	0	0	0	0	2
	2023	2	0	0	0	0	2
CA (Note 1)	2021	3	1	0	0	0	4
	2022	4	0	0	0	0	4
	2023	4	1	0	0	0	5
CO	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
FL	2021	2	0	0	0	0	2
	2022	2	0	0	0	0	2
	2023	2	0	0	0	0	2
GA	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
IL	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
MA	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
MD	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
	2021	0	0	1	0	0	1

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Column 1 State	Column 2 Year	Column 3 Outlets at Start of Year	Column 4 Outlets Opened	Column 5 Outlets Reacquired From Franchisees	Column 6 Outlets Closed	Column 7 Outlets Sold to Franchisees	Column 8 Outlets at End of the Year
MN	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
NJ	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
NV	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	1	0	0	2
OK	2021	0	0	0	0	0	0
	2022	0	0	1	0	0	1
	2023	1	0	0	0	0	1
OR	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	1	0	0	1
TX	2021	2	0	0	0	0	2
	2022	2	0	0	0	0	2
	2023	2	0	0	0	0	2
VA	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
WA	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
TOTALS	2021	18	1	2	0	0	21
	2022	21	0	0	0	0	21
	2023	21	1	2	0	0	24

Notes:

1) One of our California Corporate Locations was divided into two Corporate Locations due to its size.

TABLE 5
Projected Openings as of December 31, 2023

Column 1 State	Column 2 Franchise Agreements Signed But Outlet Not Opened	Column 3 Projected New Franchised Outlets	Column 4 Projected New Company–Owned Outlets
TOTALS	0	0	0

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Exhibit F to this disclosure document is a list of California Closets franchisees in the United States as of December 31, 2023. No franchisee had a franchise agreement terminated, canceled, not renewed, or closed its business during 2023.

During 2023, we re-acquired two franchised businesses. The name, city, state and telephone number or email address of the franchisees we acquired the franchised businesses from are:

Darci Fredricks Tualatin, OR (503) 885-8211	Michael Laub Reno, NV (775) 827-8282

No franchisees have failed to communicate with us in the 10 weeks before we issued this disclosure document.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with California Closets®. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

The Franchise Advisory Council is located at 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023, telephone no. (216) 741-9000.

ITEM 21
FINANCIAL STATEMENTS

Exhibit A-1 to this disclosure document are our parent FS Brands, Inc.'s audited financial statements for its fiscal years ended December 31, 2021, December 31, 2022, and December 31, 2023. Exhibit A-2 to this disclosure document is FS Brands, Inc.'s Guarantee of Performance.

ITEM 22
CONTRACTS

Included in this disclosure document are the following sample agreements:

Exhibit B-1	Franchise Agreement (including Telephone Number Assignment Agreement and Power of Attorney and Guaranty and Assumption of Franchisee's Obligations)
Exhibit B-2	Sample Release Language for Renewal of Franchise Agreement
Exhibit C	Reserved
Exhibit D	Sample Nondisclosure Agreement
Exhibit E	Consent to Transfer of Right to Operate Franchised Business and Sale of Certain Assets
Exhibit H	State-Specific Additional Disclosures
Exhibit K	Receipts

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ITEM 23
RECEIPTS

The last two pages of this disclosure document are detachable Receipts that evidence your receipt of this disclosure document. You should sign both Receipts, keep one for yourself, and return the other to us.

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EXHIBIT A-1

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

AUDITED FINANCIAL STATEMENTS

FS Brands, Inc.

Consolidated Financial Statements
December 31, 2023 and
December 31, 2022
(expressed in US dollars)

Report of Independent Auditors

To the Management and Board of Directors of FS Brands, Inc.

Opinion
We have audited the accompanying consolidated financial statements of FS Brands, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and December 31, 2022, and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audit. 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US 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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario, Canada
March 19, 2024

FS Brands, Inc.

Consolidated Balance Sheets

As at December 31, 2023 and December 31, 2022

(expressed in US dollars)

	2023 $	2022 $
Assets		
Current assets		
Cash and cash equivalents	74,395,379	45,238,140
Restricted cash	289,567	3,865,026
Accounts receivable – net of allowance for doubtful accounts of $3,822,098 (2022 – $3,679,648)	73,640,316	57,510,268
Notes receivable (note 5)	979,789	958,294
Due from parent company	104,227	-
Inventories	46,944,449	45,016,526
Prepaid expenses and other current assets	19,367,721	16,684,522
Income taxes recoverable	14,860,359	12,454,925
	230,581,807	181,727,701
Notes receivable (note 5)	9,746,789	9,511,607
Other assets	9,622,884	7,177,336
Property and equipment (note 6)	58,187,454	54,523,603
Intangible assets (note 7)	39,809,871	37,568,320
Goodwill (note 8)	135,209,812	116,985,756
Operating lease right-of-use asset (note 9)	61,114,454	50,319,965
	544,273,071	457,814,288

Approved by the Board of Directors

_____ Director _____ Director

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Balance Sheets…*continued*

As at December 31, 2023 and December 31, 2022

(expressed in US dollars)

	2023 $	2022 $
Liabilities		
Current liabilities		
Accounts payable	20,246,247	15,085,159
Accrued liabilities	70,223,561	71,003,814
Notes payable	-	456,933
Deferred revenue and customer deposits	42,470,440	45,124,182
Due to ultimate parent	23,271,188	10,674,950
Due to parent company	-	1,605,327
Income taxes payable	833,439	-
Operating lease liabilities – current (note 9)	12,328,887	10,852,049
	169,373,762	154,802,414
Deferred revenues	21,084,490	17,428,363
Long-term value appreciation rights	8,915,671	7,507,602
Income taxes payable	186,059	186,059
Deferred income taxes (note 10)	11,146,082	9,657,479
Operating lease liabilities – non-current (note 9)	51,682,224	41,837,873
	262,388,288	231,419,790
Non-controlling interests (note 12)	66,979,653	52,347,171
Stockholders' Equity		
Common stock	1	1
Additional paid-in capital	29,529,067	29,529,067
Retained earnings	185,376,062	144,518,259
	214,905,130	174,047,327
	544,273,071	457,814,288

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2023 and December 31, 2022

(expressed in US dollars)

	2023 $	2022 $
Revenue (note 3)		
Royalties	99,564,101	96,138,519
Franchise fees	6,131,358	4,676,664
Merchandise sales	584,521,531	440,308,645
Services and other	91,982,256	89,522,047
	782,199,246	630,645,875
Costs and expenses		
Franchise operating	41,994,603	34,172,132
Cost of merchandise sales	417,539,405	308,600,762
Cost of services	7,575,789	7,212,569
General and administrative	211,319,558	184,991,102
Management fees to parent (note 4)	6,772,822	6,673,136
Depreciation and amortization	29,188,378	21,075,585
	714,390,555	562,725,286
Income from operations	67,808,691	67,920,589
Other income/expense		
Interest income	-	227,347
Interest expense	257,558	-
Income before income taxes	67,551,133	68,147,936
Provision for income taxes (note 10)	17,567,609	18,156,450
Net income for the year	49,983,524	49,991,486
Non-controlling interests' share of earnings (note 12)	(2,982,184)	(3,241,134)
Non-controlling interests' redemption increment (note 12)	(6,143,537)	(9,098,981)
Net income and comprehensive income attributable to common stockholders for the year	40,857,803	37,651,371

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2023 and December 31, 2022

(expressed in US dollars)

	Common stock $	Additional paid-in capital $	Retained earnings $	Total $
Balance – December 31, 2021	1	29,529,067	132,661,115	162,190,183
Other movements	-	-	198,675	198,675
Dividends	-	-	(25,992,902)	(25,992,902)
Net income and comprehensive income attributable to common stockholders for the year	-	-	37,651,371	37,651,371
Balance – December 31, 2022	1	29,529,067	144,518,259	174,047,327
Net income and comprehensive income attributable to common stockholders for the year	-	-	40,857,803	40,857,803
Balance – December 31, 2023	1	29,529,067	185,376,062	214,905,130

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and December 31, 2022

(expressed in US dollars)

	2023 $	2022 $
Cash provided by (used in)		
Operating activities		
Net income for the year	49,983,524	49,991,486
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment (note 6)	19,480,882	15,889,477
Amortization of intangible assets	9,707,496	5,186,108
Deferred income taxes	(2,091,203)	730,801
Change in non-cash working capital (note 11)	(14,295,507)	(11,765,021)
	62,785,192	60,032,851
Investing activities		
Purchase of property and equipment	(19,902,538)	(22,827,225)
Acquisition of businesses, net of cash acquired	(24,455,980)	(30,435,599)
	(44,358,518)	(53,262,824)
Financing activities		
Advance (payment) from (to) parent	10,886,684	(2,230,925)
Payment of notes payable	(456,933)	(425,924)
Purchase of non-controlling interest (note 12)	(2,429,454)	(1,712,355)
Sales of shares to non-controlling interests	895,199	442,432
Payment of dividends to parent	-	(24,666,813)
Payment of dividends to non-controlling interests	(1,740,390)	(4,317,092)
	7,155,106	(32,910,677)
Decrease in cash and cash equivalents during the year	25,581,780	(26,140,650)
Cash, restricted cash, and cash equivalents – Beginning of year	49,103,166	75,243,816
Cash, restricted cash, and cash equivalents – End of year	74,684,946	49,103,166
Supplementary information		
Cash paid for interest and dividends	670,526	124,055
Cash paid for income taxes	21,130,437	20,438,158

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in US dollars)

1 Nature of business operations

FS Brands, Inc. (the Company), incorporated on March 31, 2010, is a 97.18% owned subsidiary of FS Property Services (U.S.) Inc. (the parent), which is indirectly a 100% owned subsidiary of FirstService Corporation (the ultimate parent), a publicly owned, diversified real estate services company.

Through the following subsidiaries, CertaPro Painters Ltd., Paul Davis Restoration, Inc., California Closet Company, Inc., Pillar to Post, Inc. and Floor Coverings International, Ltd., the Company's principal function is the recruiting, training and operation of franchise systems throughout the United States. In addition, the Company controls 22 California Closet franchises, 23 Paul Davis Restoration franchises, and two CertaPro Painters franchises.

2 Summary of significant accounting policies

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates made by management relate to the initial determination of fair values of assets acquired and liabilities assumed in business combinations and the assessment of potential impairment of goodwill and intangible assets. Actual results could differ from those estimates.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

Revenue recognition and unearned revenue

The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Company measures revenue based on consideration specified in the contract of each customer and recognizes revenue as the performance obligations are satisfied by transferring the control of the service or product to a customer.

- Franchisor operations

  The Company operates several franchise systems. Initial franchise fees are deferred and recognized over the term of the franchise agreement. Royalty revenue is recognized based on a contracted percentage of franchisee revenue, as reported by the franchisees. Revenue from administrative and other support services, as applicable, is recognized as the services are provided.

(expressed in US dollars)

The Company's franchise systems operate marketing funds on behalf of franchisees. Advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis in the Company's consolidated statements of income and comprehensive income. To the extent that contributions received exceed advertising expenditures, the excess amount is accrued and offset as a deferred liability, whereas any expenditures in excess of contributions are expensed as incurred. As such, advertising fund contributions and the related revenue and expenses may be reported in a different period.

- Revenue from construction contracts and service operations other than franchisor operations

  Revenue is recognized at the time the service is rendered. Certain services, including but not limited to construction contracts and real estate project management work-in-process, are recognized over time based on percentage of completion, a ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period in which the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

Cash and cash equivalents

The Company considers all investments readily convertible into cash and having an initial maturity of three months or less to be cash equivalents. Cash equivalents include money market funds and time deposits, which are carried at cost and approximate fair value.

Restricted cash

Restricted cash comprises cash restricted for marketing fund use. The Company is in custody of the cash received from franchisees for use in franchisee marketing funds.

The Company's consolidated statements of cash flows explain the change during the period in the total of cash and cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The Company's restricted cash balance consists primarily of cash related to our marketing funds.

Inventories

Inventories consist of finished products, accessories and components of closet and workspace systems, painting kits, film and supplies held for resale. Inventories are valued at the lower of cost (first in, first out) and net realizable value. Work-in-process inventory relates to construction contracts in process and is accounted for using the percentage of completion method.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated on a straight-line basis over the lesser of the useful life of the asset or the remaining lease term.

(expressed in US dollars)

Maintenance and repairs are expensed to operations as incurred, while betterments and additions are capitalized. On sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reflected in income.

Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at a fair value on the date they are acquired and are amortized using the straight-line method over their estimated useful lives as follows:

Customer relationships	4 to 20 years
Trademark	15 to 30 years
Franchise agreements	pattern of use

Goodwill is tested for impairment annually, on August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, no further testing is required. When the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount, a goodwill impairment test is performed. The Company also has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing a quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period. A quantitative goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value is estimated using a market multiple method, which estimates market multiples of earnings before interest, taxes, depreciation and amortization (EBITDA) for comparable entities with similar operations and economic characteristics. Significant assumptions used in estimating the fair value of each reporting unit include the market multiples of EBITDA.

Impairment of long-lived assets

The Company reviews the carrying amount of its long-lived assets including, but not limited to, property and equipment and intangible and other assets, if events or changes in circumstances indicate the asset might be impaired. The carrying amount of a long-lived asset group is considered impaired when the undiscounted cash flow from such asset group is estimated to be less than its carrying amount. In that event, a loss is recognized as the amount by which the carrying amount exceeds its fair value. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived asset groups to be disposed of would be determined in a similar manner, except that fair value would be reduced by any costs of disposal.

(expressed in US dollars)

Deferred revenue and customer deposits

Deferred revenue represents payments received in connection with services to be provided in the future and is recognized when the services have been provided. Customer deposits represent payments received as deposits in connection with California Closet products to be installed.

Notional value appreciation plans

Under these plans, subsidiary employees are compensated if the notional value of the subsidiary increases. Awards under these plans generally have a term of up to ten years and a vesting period of five years. The increase in notional value is calculated with reference to growth in earnings relative to a fixed threshold amount plus or minus changes in indebtedness relative to a fixed opening amount. If an award is subject to a vesting condition, then graded attribution is applied to the intrinsic value. The related compensation expense is recorded in selling, general and administrative expenses, the current liability is recorded in accrued liabilities, and the non-current portion is recorded in other liabilities.

Leases

The Company has lease agreements with lease and non-lease components and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the consolidated balance sheets when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

Income taxes

Income tax has been provided using the asset and liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse, be recovered or be settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

Non-controlling interests

The non-controlling interests are considered to be redeemable securities and accordingly are recorded at the greater of (i) the redemption amount; or (ii) the amount initially recorded as redeemable non-controlling interest at the date of inception of the minority equity position. This amount is recorded in the “mezzanine” section of the consolidated balance sheets, outside of stockholders’ equity. Changes in the redeemable non-controlling interests amount are recognized immediately as they occur.

(expressed in US dollars)

Fair value measurements

Fair value measurements are measured using inputs from the three levels of the fair value hierarchy. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – observable market based inputs other than quoted prices in active markets for identical assets or liabilities; and

Level 3 – unobservable inputs for which there is little or no market data, which requires the Company to develop its own assumptions.

Concentrations

The Company's financial instruments exposed to credit risk include cash and cash equivalents, due from parent, restricted cash, accounts receivable and notes receivable. The Company places its cash, restricted cash and cash equivalents with institutions of high creditworthiness. Management routinely assesses the collectability of its accounts receivable and notes receivable and its credit risk is limited due to the dispersion of the customer base comprising the receivables.

During the year ended December 31, 2023, there were $1,325,985 (2022 – $4,217,276) of write-offs from the allowance for credit losses.

Business combinations

All business combinations are accounted for using the purchase method of accounting. Transaction costs are expensed as incurred.

The determination of fair values of assets and liabilities assumed in business combinations requires the use of estimates and judgement by management, particularly in determining fair values of intangible assets acquired.

The fair value of the contingent consideration is classified as a financial liability and is recorded on the consolidated balance sheets at the acquisition date and is re-measured at fair value at the end of each period until the end of the contingency period, with fair value adjustments recognized in earnings.

3 Revenue from contracts with customers

Franchise fee revenue recognized during the twelve months ended December 31, 2023, which was included in deferred revenue at the beginning of the period, was $5,558,367 (2022 – $4,416,416). These fees are recognized over the life of the underlying franchise agreement, usually between 5 – 10 years.

The majority of current unearned revenue as at December 31, 2022 was recognized into income during 2023.

(expressed in US dollars)

External broker costs and employee sales commissions in obtaining new franchisees are capitalized in accordance with the revenue standard and are amortized over the life of the underlying franchise agreement. Costs amortized during the twelve months ended December 31, 2023 were $2,749,632 (2022 – $1,953,819). The closing amount of the capitalized costs to obtain contracts on the consolidated balance sheets as at December 31, 2023 was $11,417,250 (2022 – $8,601,730). There were no impairment losses recognized related to those assets in 2023.

Disaggregated revenue is as follows:

	Twelve months ended December 31	
	2023	**2022**
	$	**$**
Revenue recognized		
Point in time	775,591,733	625,511,188
Over time	6,607,513	5,134,687

The Company disaggregates revenue by point in time and over time.

4 Transactions with related parties

Management fees

The Company has a management agreement with the parent that provides certain administrative and management services to the Company. For the years ended December 31, 2023 and December 31, 2022, the fees for such services totalled $6,772,822 (2022 – $6,673,136). These transactions were in the normal course of operations and were measured at the exchange amount.

5 Notes receivable

The Company has notes receivable from franchisees for various franchise fees and royalties. These notes bear interest at rates ranging from nil% to 8%, are unsecured and are repayable in monthly instalments. Also included in notes receivable are amounts owing from certain non-controlling interest stockholders. The total amount due from non-controlling interests is $462,291 (2022 – $462,291). The interest rate on these notes is 2.5%.

(expressed in US dollars)

As at December 31, 2023, annual maturities on the notes receivable were as follows:

	$
2024	979,789
2025	7,955,432
2026	538,188
2027	367,348
2028	184,373
Thereafter	741,115
	10,766,245
Less: Allowance for doubtful accounts	39,667
	10,726,578
Less: Current portion	979,789
	9,746,789

6 Property and equipment

				2023
	Depreciation period	**Gross carrying amount $**	**Accumulated depreciation $**	**Net $**
Production equipment	5 to 7 years	41,165,577	29,881,575	11,284,002
Vehicles	5 years	44,390,894	26,864,976	17,525,918
Furniture and fixtures	5 to 7 years	15,145,693	12,348,386	2,797,307
Computers and equipment	3 to 5 years	54,800,606	34,147,619	20,652,987
Leasehold improvements	lease term	21,206,696	15,279,456	5,927,240
		176,709,466	118,522,012	58,187,454

				2022
	Depreciation period	**Gross carrying amount $**	**Accumulated depreciation $**	**Net $**
Production equipment	5 to 7 years	36,100,396	24,883,201	11,217,195
Vehicles	5 years	36,711,890	22,061,640	14,650,250
Furniture and fixtures	5 to 7 years	13,915,248	10,264,897	3,650,351
Computers and equipment	3 to 5 years	48,633,491	28,116,735	20,516,756
Leasehold improvements	lease term	17,998,005	13,508,954	4,489,051
		153,359,030	98,835,427	54,523,603

(expressed in US dollars)

Depreciation expense totalled $19,480,882 (2022 – $15,889,477) for the years ended December 31, 2023 and December 31, 2022.

7 Intangible assets

	2023		
	Gross carrying amount $	**Accumulated amortization $**	**Net $**
Trademarks	10,774,499	7,412,820	3,361,679
Franchise agreements	53,012,248	37,544,561	15,467,687
Customer relationship	29,688,337	10,230,288	19,458,049
Non-compete and other	4,419,790	2,897,334	1,522,456
	97,894,874	58,085,003	39,809,871

	2022		
	Gross carrying amount $	**Accumulated amortization $**	**Net $**
Trademarks	10,774,499	7,181,520	3,592,979
Franchise agreements	48,487,505	31,996,307	16,491,198
Customer relationship	23,096,611	7,799,564	15,297,047
Non-compete and other	3,587,212	1,400,116	2,187,096
	85,945,827	48,377,507	37,568,320

Amortization expense totalled $9,707,496 (2022 – $5,186,108) for the years ended December 31, 2023 and December 31, 2022.

The following is the estimated annual amortization expense for each of the next five years:

	$
2024	($7,046,467.64)
2025	($6,693,874.64)
2026	($5,843,202.00)
2027	($3,935,031.90)
2028	($3,018,165.85)

8 Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset

might be impaired. Based on the qualitative assessment in 2023, the Company has concluded that goodwill is not impaired.

	$
Balance as at December 31, 2021	92,144,276
Goodwill acquired during the year	20,902,769
Goodwill adjustment during the year	3,938,711
Balance as at December 31, 2022	116,985,756
Goodwill acquired during the year	15,121,509
Goodwill adjustment during the year	3,102,547
Balance as at December 31, 2023	135,209,812

9 Leases

The Company has operating leases for corporate offices, copiers and certain equipment. Its leases have remaining lease terms of 1 year to 10 years, some of which may include options to extend the leases for up to 8 years, and some of which may include options to terminate the leases within 1 year. The Company evaluates renewal terms on a lease-by-lease basis to determine if the renewal is reasonably certain. The amount of operating lease expense recorded in the consolidated statements of income and comprehensive income was $15,076,940 (2022 – $11,578,812).

Other information related to leases was as follows:

Supplemental cash flows information, twelve months ended December 31, 2023	
Cash paid for amounts included in the measurement of operating lease liabilities	14,430,706
Right-of-use assets obtained in exchange for operating lease obligation	23,907,169
Weighted average remaining operating lease term	5.51 years
Weighted average discount rate	5.76%

The following represent operating lease commitments:

	$
2024	11,223,495
2025	15,585,349
2026	14,019,377
2027	10,330,993
2028 and thereafter	24,623,341
	75,782,555

(expressed in US dollars)

10 Income taxes

The statutory rate is 26.5% and the effective rate is 26.59%. The primary reconciling items relate to permanent differences and adjustments to tax liabilities for prior periods.

The components of the provision for income taxes are as follows:

	2023 $	2022 $
Current provision		
Federal	15,048,207	13,250,598
State	4,610,605	4,175,051
	19,658,812	17,425,649
Deferred recovery		
Federal	(1,756,021)	1,001,480
State	(335,182)	(270,679)
	(2,091,203)	730,801
	17,567,609	18,156,450

The components of deferred income tax assets and liabilities are as follows:

	2023 $	2022 $
Deferred income tax assets		
Accrued expenses	7,093,339	6,966,265
Bad debt	798,306	767,530
Interest expense	4,843	-
Future benefit of tax losses	2,785,806	1,154,551
	10,682,294	8,888,346
Deferred income tax liabilities		
Purchased goodwill and intangible assets	9,152,386	7,550,504
Property and equipment	10,602,588	8,854,545
Investment in partnership	672,989	1,122,584
	20,427,963	17,527,633
Net deferred income tax liabilities before valuation allowance	9,745,669	8,639,287
Valuation allowance	1,400,413	1,018,192
Net deferred income tax liabilities	11,146,082	9,657,479

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's taxing jurisdiction is the United States of America. With few exceptions, the Company is no longer subject to US federal, state and local income tax examinations by tax authorities for years before 2016.

The Company does not currently expect any material impact on earnings to result from the resolution of matters relating to open taxation years; however, actual settlements may differ from amounts accrued. Currently, it is not reasonably possible to determine whether unrecognized tax benefits will increase or decrease within the next 12 months with respect to settlements of tax audits. The Company has made its current estimates on facts and circumstances known to date and cannot predict subsequent or changed facts and circumstances that could affect its current estimates.

11 Change in non-cash working capital

	2023 $	2022 $
Accounts receivable	(6,943,101)	(1,871,126)
Inventories	(1,520,024)	(17,868,743)
Notes receivable	(256,677)	1,069,030
Prepaid expenses and other current assets	(2,166,751)	(2,243,093)
Accounts payable	2,330,719	440,038
Accrued liabilities	(3,649,003)	15,827,746
Deferred revenue and customer deposits	308,122	(1,587,836)
Income taxes	(1,800,991)	(3,012,516)
Other liabilities	(597,801)	(2,518,521)
	(14,295,507)	(11,765,021)

12 Non-controlling interests

The following table provides a reconciliation of the beginning and ending amounts for non-controlling interests (NCI):

	2023 $	2022 $
Balance – Beginning of year	52,347,171	28,256,345
Share of earnings of NCI	2,982,184	3,241,134
Redemption increment of NCI	6,143,537	9,098,981
Distributions paid to NCI	(1,740,390)	(2,991,003)
Purchase of NCI	(2,429,454)	(1,712,355)
Sale of NCI	9,676,605	16,454,069
Balance – End of year	66,979,653	52,347,171

The Company has stockholders' agreements in place for each of its non-wholly owned subsidiaries. These agreements allow the Company to call the NCI at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net income before extraordinary items, income taxes, interest, depreciation and amortization. The agreements also have redemption features, which allow the owners of the NCI to put their equity into the Company at the same price, subject to certain limitations. The formula price is referred to as the redemption amount and may be settled in cash or with the ultimate parent's shares. The redemption amount as at December 31, 2023 and December 31, 2022 was $66,979,653 (2022 – $52,347,171).

(expressed in US dollars)

13 Letters of credit

College Pro Painters (U.S.) Ltd. is required to obtain irrevocable bank letters of credit totalling $311,649 (2022 – $311,649). The letters of credit are to remain open for the duration of certain stop-loss insurance policies or until all insurance claims against College Pro Painters (U.S.) Ltd. have been settled.

14 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The following are estimates of the fair values for other financial instruments:

	Carrying amount $	Fair value $
Notes receivable	10,726,578	9,367,321
Contingent consideration	6,488,064	5,819,812

Notes receivable include amounts due from franchisees and non-controlling stockholders. Notes payable include amounts due to vendors in connection with business acquisitions. The fair values of these instruments are determined using a valuation model with prevailing interest rates obtained from third parties. The inputs used in the fair value of contingent consideration are unobservable and are therefore classified as level 3 and relate to future cash flows and discount rates, which requires the Company to develop its own assumptions.

15 Defined contribution pension plan

The Company contributed $3,824,115 (2022 – $2,998,964) to its 401(k) plan during the year, which has been recorded as an expense in each of the respective years.

16 Acquisitions

In 2023, the Company completed the acquisition of five Paul Davis franchises headquartered in Houston, Texas, Richmond, Virginia, Reno, Nevada, Denver, Colorado, and Boise, Idaho, respectively. The Company also acquired a California Closets franchise operating in Reno, Nevada, and a CertaPro Painters franchise, headquartered in Orange County, California.

(expressed in US dollars)

Details of these acquisitions are as follows:

	$
Current assets	16,283,584
Current liabilities	(6,425,675)
Non-current liabilities	(4,336,484)
Redeemable non-controlling interest	(7,861,837)
Net assets	(2,340,412)
Cash consideration	22,647,371
Contingent consideration	1,004,064
Total purchase consideration	23,651,435
Acquired intangible assets	10,870,338
Goodwill	15,121,509

In 2022, the Company completed three acquisitions, the details of which are as follows:

	$
Current assets	18,181,408
Current liabilities	(5,665,496)
Non-current liabilities	(4,725,304)
Redeemable non-controlling interest	(16,011,637)
Net assets	(8,221,029)
Cash consideration	27,330,472
Contingent consideration	3,324,501
Total purchase consideration	30,654,973
Acquired intangible assets	17,973,233
Goodwill	20,902,769

(expressed in US dollars)

In all years presented, the fair values of non-controlling interests for all acquisitions were determined using an income approach with reference to a discounted cash flow model using the same assumptions implied in determining the purchase consideration.

The purchase price allocations for certain transactions completed in the last twelve months are not yet complete, pending final determination of the fair value of assets acquired, the corresponding deferred tax liabilities, and final working capital adjustments. The acquisitions referred to above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of income and comprehensive income do not include any revenues or expenses related to these acquisitions prior to their respective closing dates. There have been changes to the estimated purchase price allocations determined at the time of acquisition during the year ended December 31, 2023, and included as adjustments to goodwill (see note 8).

The determination of fair values of assets acquired and liabilities assumed in business combinations required the use of estimates and judgement by management, particularly in determining fair values of intangible assets acquired. Intangible assets acquired at fair value on the date of acquisition are recorded using the income approach on an individual asset basis. The assumptions used in estimating the fair values of intangible assets include future EBITDA margins, revenue growth rates, expected attrition rates of acquired customer relationships and the discount rates.

The Company typically structures its business acquisitions to include contingent consideration. Vendors, at the time of acquisition, are entitled to receive a contingent consideration payment if the acquired businesses achieve specified earnings levels during the one- to two-year periods following the dates of acquisition. The ultimate amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment; (ii) a contractually specified earnings level; and (iii) the actual earnings for the contingency period. If the acquired business does not achieve the specified earnings level, the maximum payment is reduced for any shortfall, potentially to $nil.

The fair value of the contingent consideration liability recorded on the consolidated balance sheets as at December 31, 2023 was $5,819,812 (see note 14). The estimated range of outcomes (undiscounted) for these contingent consideration arrangements is determined based on the formula price and the likelihood of achieving specified earnings levels over the contingency period, and ranges from $5,819,812 to a maximum of $6,488,064. These contingencies will expire during the period extending to September 2025. During the year ended December 31, 2023, $nil was paid with reference to such contingent consideration (2022 – $407,356).

17 Impact of recently issued accounting standards

In December 2023, the FASB issued ASU 2023-09 – Improvements to Income Tax Disclosures. This ASU requires significant additional disclosures about income taxes, primarily focused on the disclosure of income taxes paid and the rate reconciliation table. The guidance will be applied prospectively and is effective January 1, 2025. The Company is currently assessing the impact of this ASU on its financial disclosures.

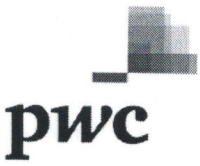
(expressed in US dollars)

18 Subsequent events

No subsequent events have been identified from the date of the consolidated balance sheets to the date of the consolidated financial statements being issued.

FS Brands, Inc.

Consolidated Financial Statements
December 31, 2022 and
December 31, 2021
(expressed in US dollars)



Report of Independent Auditors

To the Stockholders of FS Brands, Inc.

Opinion

We have audited the accompanying consolidated financial statements of FS Brands, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and December 31, 2021, and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audit. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute

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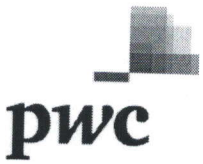
"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



assurance and therefore is not a guarantee that an audit conducted in accordance with US 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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario, Canada
February 23, 2023

FS Brands, Inc.

Consolidated Balance Sheets

As at December 31, 2022 and December 31, 2021

(expressed in US dollars)

	2022 $	2021 $
Assets		
Current assets		
Cash and cash equivalents	45,238,140	64,566,329
Restricted cash	3,865,026	10,677,487
Accounts receivable – net of allowance for doubtful accounts of $3,679,648 (2021 – $6,166,248)	57,510,268	47,835,151
Notes receivable (note 5)	958,294	2,845,266
Inventories	45,016,526	26,851,976
Prepaid expenses and other current assets	16,684,522	14,851,733
Income taxes recoverable (note 10)	12,454,925	9,179,394
	181,727,701	176,807,336
Notes receivable (note 5)	9,511,607	8,693,666
Other assets	7,177,336	6,088,395
Property and equipment (note 6)	54,523,603	42,127,045
Intangible assets (note 7)	37,568,320	25,584,760
Goodwill (note 8)	116,985,756	92,144,276
Operating lease right-of-use asset (note 9)	50,319,965	38,074,827
	457,814,288	389,520,305

Approved by the Board of Directors

_____ Director _____ Director

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Balance Sheets...*continued*

As at December 31, 2022 and December 31, 2021

(expressed in US dollars)

	2022 $	2021 $
Liabilities		
Current liabilities		
Accounts payable	15,085,159	11,530,513
Accrued liabilities	71,003,814	59,329,417
Notes payable (note 11)	456,933	454,286
Deferred revenue and customer deposits	45,124,182	48,047,327
Due to ultimate parent	10,674,950	11,251,340
Due to parent company	1,605,327	3,259,862
Operating lease liabilities – current (note 9)	10,852,049	8,819,383
	154,802,414	142,692,128
Notes payable (note 11)	-	428,571
Deferred revenues	17,428,363	14,603,412
Long-term value appreciation rights	7,507,602	2,724,651
Income taxes payable (note 10)	186,059	186,059
Deferred income taxes (note 10)	9,657,479	7,160,698
Operating lease liabilities – non-current (note 9)	41,837,873	31,278,258
	231,419,790	199,073,777
Non-controlling interests (note 13)	52,347,171	28,256,345
Stockholders' Equity		
Common stock	1	1
Additional paid-in capital	29,529,067	29,529,067
Retained earnings	144,518,259	132,661,115
	174,047,327	162,190,183
	457,814,288	389,520,305

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2022 and December 31, 2021

(expressed in US dollars)

	2022 $	2021 $
Revenue		
Royalties	96,138,519	87,815,731
Franchise fees (note 3)	4,676,664	4,398,890
Merchandise sales	440,308,645	338,168,074
Services and other	89,522,047	74,067,901
	630,645,875	504,450,596
Costs and expenses		
Franchise operating	34,172,132	27,192,498
Cost of merchandise sales	308,600,762	238,949,248
Cost of services	7,212,569	6,221,708
General and administrative	184,991,102	155,107,036
Management fees to parent (note 4)	6,673,136	7,418,510
Depreciation and amortization	21,075,585	19,807,499
	562,725,286	454,696,499
Income from operations	67,920,589	49,754,097
Other income		
Interest income	227,347	427,208
Income before income taxes	68,147,936	50,181,305
Provision for income taxes (note 10)	18,156,450	13,315,914
Net income for the year	49,991,486	36,865,391
Non-controlling interests' share of earnings (note 13)	(3,241,134)	(2,350,221)
Non-controlling interests redemption increment (note 13)	(9,098,981)	(8,058,800)
Net income and comprehensive income attributable to common stockholders for the year	37,651,371	26,456,370

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022 and December 31, 2021

(expressed in US dollars)

	Common stock $	Additional paid-in capital $	Retained earnings $	Total $
Balance – December 31, 2020	1	29,529,067	160,555,484	190,084,552
Other movements	-	-	208,796	208,796
Dividends	-	-	(54,559,535)	(54,559,535)
Net income and comprehensive income attributable to common stockholders for the year	-	-	26,456,370	26,456,370
Balance – December 31, 2021	1	29,529,067	132,661,115	162,190,183
Other movements	-	-	198,675	198,675
Dividends	-	-	(25,992,902)	(25,992,902)
Net income and comprehensive income attributable to common stockholders for the year	-	-	37,651,371	37,651,371
Balance – December 31, 2022	1	29,529,067	144,518,259	174,047,327

The accompanying notes are an integral part of these consolidated financial statements.

FS Brands, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and December 31, 2021

(expressed in US dollars)

	2022 $	2021 $
Cash provided by (used in)		
Operating activities		
Net income for the year	49,991,486	36,865,391
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment (note 6)	15,889,477	15,705,978
Amortization of intangible assets	5,186,108	4,101,521
Deferred income taxes	730,801	58,327
Change in non-cash working capital (note 12)	(11,765,021)	11,736,088
	60,032,851	68,467,305
Investing activities		
Purchase of property and equipment	(22,827,225)	(19,247,316)
Acquisition of businesses	(30,435,599)	(14,212,272)
	(53,262,824)	(33,459,588)
Financing activities		
Advance from parent	(2,230,925)	3,495,791
Advance of notes payable	(425,924)	(409,286)
Purchase of non-controlling interest (note 13)	(1,712,355)	(2,276,657)
Sales of shares to non-controlling interests	442,432	1,350,117
Payment of dividends to parent	(24,666,813)	(52,689,410)
Payment of dividends to non-controlling interests	(4,317,092)	(4,289,028)
	(32,910,677)	(54,818,473)
Decrease in cash and cash equivalents during the year	(26,140,650)	(19,810,756)
Cash and cash equivalents – Beginning of year	75,243,816	95,054,572
Cash and cash equivalents – End of year	49,103,166	75,243,816
Supplementary information		
Cash paid for interest and dividends	124,055	(181,562)
Cash paid for income taxes	20,438,158	11,743,547

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in US dollars)

1 Nature of business operations

FS Brands, Inc. (the Company), incorporated on March 31, 2010, is a 97.18% owned subsidiary of FS Property Services (U.S.) Inc. (the parent), which is indirectly a 100% owned subsidiary of FirstService Corporation (the ultimate parent), a publicly owned, diversified real estate services company.

Through the following subsidiaries, CertaPro Painters Ltd., Paul Davis Restoration, Inc., California Closet Company, Inc., Pillar to Post, Inc. and Floor Coverings International, Ltd., the Company's principal function is the recruiting, training and operation of franchise systems throughout the United States. In addition, the Company controls 20 California Closet franchises and 11 Paul Davis Restoration franchises.

2 Summary of significant accounting policies

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates made by management relate to the collectability of accounts receivable and notes receivable, the initial determination of fair values of assets acquired and liabilities assumed in business combinations and the assessment of potential impairment of goodwill and intangible assets. Actual results could differ from those estimates.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

Revenue recognition and unearned revenue

The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Company measures revenue based on consideration specified in the contract of each customer and recognizes revenue as the performance obligations are satisfied by transferring the control of the service or product to a customer.

- Franchisor operations

  The Company operates several franchise systems. Initial franchise fees are deferred and recognized over the term of the franchise agreement. Royalty revenue is recognized based on a contracted percentage of franchisee revenue, as reported by the franchisees. Revenue from administrative and other support services, as applicable, is recognized as the services are provided.

The Company's franchise systems operate marketing funds on behalf of franchisees. Advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis in the Company's consolidated statements of income and comprehensive income. To the extent that contributions received exceed advertising expenditures, the excess amount is accrued and offset as a deferred liability, whereas any expenditures in excess of contributions are expensed as incurred. As such, advertising fund contributions and the related revenue and expenses may be reported in a different period.

- Revenue from construction contracts and service operations other than franchisor operations

  Revenue is recognized at the time the service is rendered. Certain services, including but not limited to construction contracts and real estate project management work-in-process, are recognized over time based on percentage of completion, a ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period in which the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

Cash and cash equivalents

The Company considers all investments readily convertible into cash and having an initial maturity of three months or less to be cash equivalents. Cash equivalents include money market funds and time deposits, which are carried at cost and approximate fair value.

Restricted cash

Restricted cash comprises cash restricted for marketing fund use. The Company is in custody of the cash received from franchisees for use in franchisee marketing funds.

Per the guidance issued by the Financial Accounting Standards Board (FASB) on restricted cash (Accounting Standards Update (ASU) No. 2016-18), the Company's consolidated statements of cash flows explain the change during the period in the total of cash and cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The Company's restricted cash balance consists primarily of cash related to our marketing funds.

Inventories

Inventories consist of finished products, accessories and components of closet and workspace systems, painting kits, film and supplies held for resale. Inventories are valued at the lower of cost (first in, first out) and net realizable value. Work-in-process inventory relates to construction contracts in process and is accounted for using the percentage of completion method.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated on a straight-line basis over the lesser of the useful life of the asset or the remaining lease term.

(expressed in US dollars)

Maintenance and repairs are expensed to operations as incurred, while betterments and additions are capitalized. On sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reflected in income.

Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at a fair value on the date they are acquired and are amortized using the straight-line method over their estimated useful lives as follows:

Customer relationships	4 to 20 years
Trademark	15 to 30 years
Franchise agreements	pattern of use

Goodwill is tested for impairment annually, on August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, no further testing is required. When the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount, a goodwill impairment test is performed. The Company also has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing a quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period. A quantitative goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value is estimated using a market multiple method, which estimates market multiples of earnings before interest, taxes, depreciation and amortization (EBITDA) for comparable entities with similar operations and economic characteristics. Significant assumptions used in estimating the fair value of each reporting unit include the market multiples of EBITDA.

Impairment of long-lived assets

The Company reviews the carrying amount of its long-lived assets including, but not limited to, property and equipment and intangible and other assets, if events or changes in circumstances indicate the asset might be impaired. The carrying amount of a long-lived asset group is considered impaired when the undiscounted cash flow from such asset group is estimated to be less than its carrying amount. In that event, a loss is recognized as the amount by which the carrying amount exceeds its fair value. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived asset groups to be disposed of would be determined in a similar manner, except that fair value would be reduced by any costs of disposal.

(expressed in US dollars)

Deferred revenue and customer deposits

Deferred revenue represents payments received in connection with services to be provided in the future and is recognized when the services have been provided. Customer deposits represent payments received as deposits in connection with California Closet products to be installed.

Leases

The Company has lease agreements with lease and non-lease components and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the balance sheets when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

Income taxes

Income tax has been provided using the asset and liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse, be recovered or be settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

Non-controlling interests

The non-controlling interests are considered to be redeemable securities and accordingly are recorded at the greater of (i) the redemption amount; or (ii) the amount initially recorded as redeemable non-controlling interest at the date of inception of the minority equity position. This amount is recorded in the "mezzanine" section of the consolidated balance sheets, outside of stockholders' equity. Changes in the redeemable non-controlling interests amount are recognized immediately as they occur.

Fair value measurements

Fair value measurements are measured using inputs from the three levels of the fair value hierarchy. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

(expressed in US dollars)

Level 2 – observable market based inputs other than quoted prices in active markets for identical assets or liabilities; and

Level 3 – unobservable inputs.

Concentrations

The Company's financial instruments exposed to credit risk include cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Company places its cash, restricted cash and cash equivalents with institutions of high creditworthiness. Management routinely assesses the collectability of its accounts receivable and notes receivable and its credit risk is limited due to the dispersion of the customer base comprising the receivables.

3 Revenue from contracts with customers

Franchise fee revenue recognized during the twelve months ended December 31, 2022, which was included in deferred revenue at the beginning of the period, was $4,416,416 (2021 – $4,189,800). These fees are recognized over the life of the underlying franchise agreement, usually between 5 – 10 years.

The majority of current unearned revenue as at December 31, 2021 was recognized into income during 2022.

External broker costs and employee sales commissions in obtaining new franchisees are capitalized in accordance with the revenue standard and are amortized over the life of the underlying franchise agreement. Costs amortized during the twelve months ended December 31, 2022 were $1,953,819 (2021 – $1,979,515). The closing amount of the capitalized costs to obtain contracts on the balance sheets as at December 31, 2022 was $8,601,730 (2021 – $7,295,196). There were no impairment losses recognized related to those assets in 2021.

Disaggregated revenue is as follows:

	Twelve months ended December 31	
	2022 $	2021 $
Revenue recognized		
Point in time	625,511,188	499,635,473
Over time	5,134,687	4,815,123

The Company disaggregates revenue by point in time and over time.

(expressed in US dollars)

4 Transactions with related parties

Management fees

The Company has a management agreement with the parent that provides certain administrative and management services to the Company. For the years ended December 31, 2022 and December 31, 2021, the fees for such services totalled $6,673,136 (2021 – $7,418,510). These transactions were in the normal course of operations and were measured at the exchange amount.

5 Notes receivable

The Company has notes receivable from franchisees for various franchise fees and royalties. These notes bear interest at rates ranging from nil% to 8%, are unsecured and are repayable in monthly instalments. Also included in notes receivable are amounts owing from certain non-controlling interest stockholders. The total amount due from non-controlling interests is $462,291 (2021 – $202,062). The interest rate on these notes is 2.5%.

As at December 31, 2022, annual maturities on the notes receivable were as follows:

	$
2023	958,294
2024	7,806,182
2025	458,893
2026	329,977
2027	112,734
Thereafter	880,321
	10,546,401
Less: Allowance for doubtful accounts	76,500
	10,469,901
Less: Current portion	958,294
	9,511,607

(expressed in US dollars)

6 Property and equipment

		2022		
	Depreciation period	Gross carrying amount $	Accumulated depreciation $	Net $
Production equipment	5 to 7 years	36,100,396	24,883,201	11,217,195
Vehicles	5 years	36,711,890	22,061,640	14,650,250
Furniture and fixtures	5 to 7 years	13,915,248	10,264,897	3,650,351
Computers and equipment	3 to 5 years	48,633,491	28,116,735	20,516,756
Leasehold improvements	lease term	17,998,005	13,508,954	4,489,051
		153,359,030	98,835,427	54,523,603

		2021		
	Depreciation period	Gross carrying amount $	Accumulated depreciation $	Net $
Production equipment	5 to 7 years	28,315,940	20,692,674	7,623,266
Vehicles	5 years	25,238,074	14,757,497	10,480,577
Furniture and fixtures	5 to 7 years	12,294,984	8,091,964	4,203,020
Computers and equipment	3 to 5 years	37,439,576	22,088,186	15,351,390
Computer software	3 to 5 years	1,361,498	689,048	672,450
Leasehold improvements	lease term	16,372,266	12,575,922	3,796,344
		121,022,338	78,895,291	42,127,047

Depreciation expense totalled $15,889,477 (2021 – $15,705,978) for the years ended December 31, 2022 and December 31, 2021.

7 Intangible assets

	2022		
	Gross carrying amount $	Accumulated amortization $	Net $
Trademarks	10,774,499	7,181,520	3,592,979
Franchise agreements	48,487,505	31,996,307	16,491,198
Customer relationship	23,096,611	7,799,564	15,297,047
Non-compete and other	3,587,212	1,400,116	2,187,096
	85,945,827	48,377,507	37,568,320

(expressed in US dollars)

	2021		
	Gross carrying amount $	Accumulated amortization $	Net $
Trademarks	10,774,498	6,950,220	3,824,278
Franchise agreements	41,933,677	28,705,335	13,228,342
Customer relationship	15,046,611	6,514,484	8,532,127
Non-compete and other	633,165	633,165	-
	68,387,951	42,803,204	25,584,747

Amortization expense totalled $5,186,108 (2021 – $4,101,521) for the years ended December 31, 2022 and December 31, 2021.

The following is the estimated annual amortization expense for each of the next five years:

	$
2023	6,982,861
2024	5,751,290
2025	5,659,493
2026	5,202,581
2027	4,644,755

8 Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired. Based on the quantitative assessment in 2022, the Company has concluded that goodwill is not impaired.

	$
Balance as at December 31, 2020	81,942,052
Goodwill acquired during the year	10,514,739
Goodwill adjustment during the year	(312,515)
Balance as at December 31, 2021	92,144,276
Goodwill acquired during the year	20,902,769
Goodwill adjustment during the year	3,938,711
Balance as at December 31, 2022	116,985,756

(expressed in US dollars)

9 Leases

The Company has operating leases for corporate offices, copiers and certain equipment. Its leases have remaining lease terms of 1 year to 10 years, some of which may include options to extend the leases for up to 8 years, and some of which may include options to terminate the leases within 1 year. The Company evaluates renewal terms on a lease-by-lease basis to determine if the renewal is reasonably certain. The amount of operating lease expense recorded in the consolidated statements of income and comprehensive income was $11,578,812 (2021– $10,122,570).

Other information related to leases was as follows:

Supplemental cash flows information, twelve months ended December 31, 2022	
Cash paid for amounts included in the measurement of operating lease liabilities	11,164,231
Right-of-use assets obtained in exchange for operating lease obligation	23,247,830
Weighted average remaining operating lease term	5.59 Years
Weighted average discount rate	4.19%

The following represent operating lease commitments:

	$
2023	12,723,116
2024	11,312,744
2025	9,575,034
2026	8,108,272
2027 and thereafter	16,457,365
	58,176,531

(expressed in US dollars)

10 Income taxes

The components of the provision for income taxes are as follows:

	2022 $	2021 $
Current provision		
Federal	13,250,598	10,119,645
State	4,175,051	3,137,937
	17,425,649	13,257,582
Deferred recovery		
Federal	1,001,480	(133,850)
State	(270,679)	192,177
	730,801	58,327
	18,156,450	13,315,909

The components of deferred income tax assets and liabilities are as follows:

	2022 $	2021 $
Deferred income tax assets		
Accrued expenses	6,966,265	5,372,555
Bad debt	767,530	1,403,541
Future benefit of tax losses	1,154,551	816,206
	8,888,346	7,592,302
Deferred income tax liabilities		
Purchased goodwill and intangible assets	7,550,504	6,033,141
Property and equipment	8,854,545	7,320,790
Investment in partnership	1,122,584	672,989
	17,527,633	14,026,920
Net deferred income tax liabilities before valuation allowance	8,639,287	6,434,618
Valuation allowance	1,018,192	726,080
Net deferred income tax liabilities	9,657,479	7,160,698

(expressed in US dollars)

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's taxing jurisdiction is the United States of America. With few exceptions, the Company is no longer subject to US federal, state and local income tax examinations by tax authorities for years before 2015.

The Company does not currently expect any material impact on earnings to result from the resolution of matters relating to open taxation years; however, actual settlements may differ from amounts accrued. Currently, it is not reasonably possible to determine whether unrecognized tax benefits will increase or decrease within the next 12 months with respect to settlements of tax audits. The Company has made its current estimates on facts and circumstances known to date and cannot predict subsequent or changed facts and circumstances that could affect its current estimates.

11 Notes payable

	2022 $	2021 $
Promissory note, unsecured, payable in annual instalments through January 2023, interest at 2%	456,933	882,858
Less: Current portion	456,933	454,287
	-	428,571

12 Change in non-cash working capital

	2022 $	2021 $
Accounts receivable	(1,871,126)	(4,330,598)
Inventories	(17,868,743)	(5,187,631)
Notes receivable	1,069,030	(1,730,001)
Prepaid expenses and other current assets	(2,243,093)	(4,949,938)
Accounts payable	440,038	(1,792,448)
Accrued liabilities	15,827,746	16,204,166
Deferred revenue and customer deposits	(1,587,836)	16,498,965
Income taxes	(3,012,516)	(3,026,871)
Other liabilities	(2,518,521)	50,444
	(11,765,021)	11,736,088

(expressed in US dollars)

13 Non-controlling interests

The following table provides a reconciliation of the beginning and ending amounts for non-controlling interests (NCI):

	2022 $	2021 $
Balance – Beginning of year	28,256,345	18,767,098
Share of earnings of NCI	3,241,134	2,350,221
Redemption increment of NCI	9,098,981	8,058,800
Distributions paid to NCI	(2,991,003)	(2,418,908)
Purchase of NCI	(1,712,355)	(2,276,657)
Sale of NCI	16,454,069	3,775,791
Balance – End of year	52,347,171	28,256,345

The Company has stockholders' agreements in place for each of its non-wholly owned subsidiaries. These agreements allow the Company to call the NCI at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net income before extraordinary items, income taxes, interest, depreciation and amortization. The agreements also have redemption features, which allow the owners of the NCI to put their equity into the Company at the same price, subject to certain limitations. The formula price is referred to as the redemption amount and may be settled in cash or with the ultimate parent's shares. The redemption amount as at December 31, 2022 and December 31, 2021 was $53,347,171 (2021 – $28,256,350).

14 Letters of credit

College Pro Painters (U.S.) Ltd. is required to obtain irrevocable bank letters of credit totalling $311,649 (2021 – $311,649). The letters of credit are to remain open for the duration of certain stop-loss insurance policies or until all insurance claims against College Pro Painters (U.S.) Ltd. have been settled.

15 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The following are estimates of the fair values for other financial instruments:

	Carrying amount $	Fair value $
Notes receivable	10,469,901	9,022,927
Notes payable	456,933	452,431
Contingent consideration	6,473,500	5,489,847

(expressed in US dollars)

Notes receivable include amounts due from franchisees and non-controlling stockholders. Notes payable include amounts due to vendors in connection with business acquisitions. The fair values of these instruments are determined using a valuation model with prevailing interest rates obtained from third parties. The inputs are unobservable and thus classified as Level 3 and relate to future cash flows and discount rates, which requires the Company to develop its own assumptions.

16 Defined contribution pension plan

The Company contributed $2,998,964 (2021 – $2,356,024) to its 401(k) plan during the year, which has been recorded as an expense in each of the respective years.

17 Acquisitions

In 2022, the Company completed three acquisitions, the details of which are as follows:

	$
Current assets	18,181,408
Current liabilities	(5,665,496)
Non-current liabilities	(4,725,304)
Redeemable non-controlling interest	(16,011,637)
Net assets	(8,221,029)
Cash consideration	27,330,472
Contingent consideration	3,324,501
Total purchase consideration	30,654,973
Acquired intangible assets	17,973,233
Goodwill	20,902,769

EXHIBIT A-2

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

GUARANTEE OF PERFORMANCE

GUARANTEE OF PERFORMANCE

For value received, FS Brands, Inc., a Delaware corporation (the "Guarantor"), located at 2621 Van Buren Avenue, Suite 550A, Audubon, PA 19403, absolutely and unconditionally guarantees to assume the duties and obligations of California Closet Company, Inc., located at 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023 (the "Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2024 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 at Audubon, Pennsylvania on the 25th day of March, 2024.

Guarantor:

FS Brands, Inc.

By: _____
Charles E. Chase, President

EXHIBIT B-1

TO THE CALIFORNIA CLOSET COMPANY FRANCHISE DISCLOSURE DOCUMENT

FRANCHISE AGREEMENT

(MANUFACTURING AND SHOWROOM OR DESIGN CENTER)

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FRANCHISE AGREEMENT

FOR
MANUFACTURING AND SHOWROOM OR DESIGN CENTER

CALIFORNIA CLOSETS®

Franchise Id: _____ Location: _____

Franchisee: _____

Date of Agreement: _____

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CALIFORNIA CLOSETS®

FRANCHISE AGREEMENT FOR MANUFACTURING AND SHOWROOM OR DESIGN CENTER

This **FRANCHISE AGREEMENT FOR MANUFACTURING AND SHOWROOM OR DESIGN CENTER** ("**Agreement**"), is entered into as of _____ _____, 2023 ("**Effective Date**"), by and between **CALIFORNIA CLOSET COMPANY, INC.**, a California corporation, ("**We**", "**us**" or "**Our**" and including our "**affiliates**", whether written in upper or lower case); and _____, a _____ ("**You**" or "**Your**" and including your "**Owner(s)**", whether written in upper or lower case). You and We may be referred to herein as a "**party**" or collectively, the "**parties**."

RECITALS

A. We have expended a considerable amount of time, effort, and money to develop a system to establish and operate retail showrooms or design centers selling closet and storage space and organizational system design and installation services, including any necessary or related demolition and finishing services ("**Storage Space Services**") and to manufacture custom closet, office, entertainment, garage, and other storage solutions, and other storage and organizational related products and accessories (individually and collectively, "**Product(s)**") for residential and commercial uses and applications pursuant to our standards and specifications ("**Manufacturing Services**") under the California Closets® trade name and trademarks. Storage Space Services and Manufacturing Services (collectively, "**Services**") from your manufacturing facility are collectively referred to as the "**Franchised Business**." The approved location(s) of your Franchised Business, including the manufacturing and warehouse facilities, Showrooms or Design Centers (as defined in Section 1.2 below) in your Marketing Area (as defined in Section 1.1 below), is/are referred to individually and collectively as the "**Approved Location(s)**."

B. We grant franchises the right to operate a California Closets® manufacturing and showroom or design center Franchised Business.

C. You wish to obtain the right to operate a Franchised Business under the system developed by us comprised of confidential standards and specifications relating to Services; Products; methods of operation; specialized sales and management training and marketing techniques; interior and exterior designs, décor and color schemes for a Franchised Business; works protected by copyright laws; business methods; computer and web-based software applications and information management systems; and various related and ancillary methods, procedures, and techniques, all of which may be improved, expanded or otherwise modified from time to time by us (hereinafter collectively referred to as the "**System**").

D. We identify the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including, but not limited to, the mark "California Closets®," distinctive trade dress, and any other trade names, trademarks, and service marks which it may now or in the future designate for use in connection with the System (individually and collectively, "**Marks**"). We continue to develop, use, and control the Marks to identify for the public the source of Products and Services marketed under the System, and, to represent the System's high standards of quality, appearance and service.

E. You have applied to us for a franchise to operate a Franchised Business, and we have approved your application in reliance upon all of the representations made therein.

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F. You acknowledge that adherence to the terms of this Agreement and the standards and specifications we establish are essential to the operation of your Franchised Business and to the integrity of the System.

NOW THEREFORE, in consideration of the mutual covenants, conditions and agreements contained in this Agreement and for other good and valuable consideration the receipt and sufficiency of which is acknowledged by each of the parties hereto, the parties hereto do hereby each covenant and agree with the other as follows:

1. GRANT OF FRANCHISE

1.1 Grant of Franchise.

Subject to the terms and conditions set forth in this Agreement, we hereby grant, and you accept, a non-exclusive license to use the System and the Marks to operate a Franchised Business offering the Products and Services. You will provide primarily "**Residential Services**." Residential Services are defined as Storage Space Services and Products provided to residential customers for their private homes, apartments and apartment buildings, condominiums, mobile homes, or other residential dwellings. You may provide non-Residential Services, including Services and Products for any office buildings, commercial properties, and any properties other than residential dwellings ("**Non-Residential Services**"), but only if the aggregate revenue from the project is less than Five Hundred Thousand Dollars ($500,000) and the location of the project is within a two hundred (200) mile radius of your Marketing Area identified in Exhibit B attached to this Agreement and incorporated by reference ("**Marketing Area**"); otherwise, our prior written approval will be required.

1.2 Territorial Rights-Marketing Area.

You will receive a designated Marketing Area, and except as otherwise provided in this Agreement, for so long as you comply with the terms and conditions hereof, we will not establish and operate, nor license any other party the right to establish and operate a franchised business under the System and Marks within the Marketing Area, during the Term (as defined in Section 3.1 below) of this Agreement. You must open a showroom or design center in your Marketing Area from which to sell the Products and Services (individually and collectively, "**Showroom or Design Center**") the at the location designated in Exhibit A to this Agreement. You will not open a Showroom or Design Center, market your Franchised Business, or otherwise offer or sell customized closet and storage space design or installation, outside of your Marketing Area. We will not permit other System franchisees to open a Showroom or Design Center or offer Services or Products within your Marketing Area. You may only engage in Manufacturing Services for your Franchised Business within your Marketing area, provided that you may provide Manufacturing Services to other System franchisees pursuant to our standards and specifications within or outside of the Marketing Area. We hereby agree that if we receive a Lead (as defined in Section 5.2 below) to perform Storage Space Services in the Marketing Area, we will first contact you to determine if you are able to timely service the Lead. If you are unable to timely service such Lead, the parties agree that we may assign such Lead to our affiliate or another franchisee. If you are unable to service a Lead in the Marketing Area, you agree to contact us to determine if we, our affiliate, or another franchisee is able to service such Lead in the Marketing Area upon terms mutually agreed to by the parties. Notwithstanding the foregoing, you understand and agree that we shall have the right to perform any trade and/or commercial work covered under a national or regional contract with us or our affiliate in the Marketing Area upon prior notice to you.

We, our affiliates, or other franchisees may provide Services to customers located within your Marketing Area provided that we, our affiliates, or other franchisees did not obtain the customer by marketing within your Marketing Area. Similarly, you may provide Services to customers located outside of your Marketing Area provided that: (a) you obtain our prior written consent and the customer is not located within the exclusive marketing area of an existing System franchisee; and (b) you did not obtain the customer by marketing your Franchised Business outside of your Marketing Area or soliciting customers

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outside your Marketing Area. If we do give you our written consent to provide warranty and Services to a territory outside of your Marketing Area ("**Service Territory**"), the following terms and conditions will apply: (i) you will not have the right to open a Showroom or Design Center in the Service Territory; (ii) you will not have exclusive rights to the Service Territory; and (iii) we have the right to sell the Service Territory to a franchisee or operate it as a corporate marketing area owned by us or one of our affiliates at any time without requesting your prior consent or providing you with a right of first refusal or any monetary compensation. We may terminate the Services rights, with or without cause, automatically upon the expiration of twenty (20) days' prior written notice to you. You may terminate the Services rights, with or without cause, automatically upon the expiration of sixty (60) days' prior written notice to us.

Notwithstanding the foregoing, we and our affiliates retain all other rights, including, without limitation, the right to distribute Products and Services as described in Section 5 below. We have the right, among others, during the Term of this Agreement to use, and to license others to use, the System and Marks to operate franchised businesses at any location outside of your Marketing Area. You acknowledge that the forms of franchise agreement between us and other franchisees vary, and that some franchisees are not contractually bound by rules like those described in this Section 1.2. We do not represent or guarantee that franchisees who are bound by such rules will always abide by the rules. The parties acknowledge and agree that there is no marketing or territorial exclusivity with respect to Nonresidential Services.

1.3 Operations Manual.

During the Term of this Agreement, we will lend you a copy of our operations manual which includes, without limitation, any supplemental or additional manuals, guides, publications, and materials we may make available to franchisees from time to time ("**Operations Manual**"). We may make the Operations Manual available to you exclusively through a secured website established for the use of franchisees. The provisions of the Operations Manual, as informally amended from time to time, are all incorporated by reference into this Agreement. You understand and agree that we may amend the Operations Manual from time to time to reflect changes or modifications in the System and that you will be bound by any such amendments. In the event of any conflict between the terms of this Agreement and the terms of the Operations Manual, the terms of this Agreement shall govern. You must maintain access to the Operations Manual at the Approved Location(s) at all times. You must return any copies of the Operations Manual to us upon termination or expiration of this Agreement.

1.4 Intentionally Omitted.

1.5 Certification Program and Qualification Requirements.

We reserve the right, but are not obligated to, establish or maintain one or more certification programs through which franchisees may be authorized to provide any additional Products or Services which we may now or in the future designate in connection with System ("**Certification Program**"), including, without limitation, Non-Residential Services. All Certification Programs will be designated as such in our Operations Manual, as amended from time to time. You acknowledge and agree that your participation in any Certification Program will be subject to your compliance with the terms of the Certification Program and Operations Manual. Those terms and conditions may include, without limitation, the following:

(a) Your compliance with the provisions of this Agreement and any other agreement between you and us, our affiliates, and our approved or designated suppliers;

(b) Execution of our then-current Certification Program addendum, which may require a Certification Program initial fee, additional or alternative Certification Program fees or royalty payments, and additional marketing requirements, and additional licenses and permits as required under applicable law;

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(c) Your purchase of additional equipment, inventory, and supplies (collectively, "**Manufacturing Equipment**"), marketing materials, and insurance meeting our then-current standards and specifications;

(d) Your satisfactory completion of our training program, if any, for the Certification Program. You will be responsible for all travel, meal and lodging costs associated with you and your employees' attendance at such training programs; and

(e) Any other requirements we deem necessary and appropriate in connection with the Certification Program.

(f) You hereby acknowledge and agree that we may include a particular Certification Program as part of our standard offering now or in the future or offer a Certification Program through a separate franchise offering using the Marks or any other marks we may designate. If you default under this Agreement, or any Certification Program addendum, and fail to cure such defaults within the time frame prescribed in such agreements, we may revoke your certification and/or require re-certification if, in our judgment, your performance warrants such action(s). If you are unable or unwilling to participate in a Certification Program, you acknowledge and agree that we, our affiliates, or any third party designated by us may perform Certification Program services within your Marketing Area. You disclaim any compensation or consideration for work performed by others in your Marketing Area pursuant to this Section 1.5. This Section 1.5 does not constitute or create a right of first refusal for any additional franchise programs which we may now or in the future create.

1.6 General Manager.

You must appoint a general manager for the Franchised Business (which may be you or your shareholder, member, general partner if you are a corporate entity, or an employee), who is identified in Exhibit A attached to this Agreement and incorporated by reference ("**General Manager**"). We must approve your General Manager in writing prior to hiring, and your General Manager must successfully complete our initial training program before assuming any managerial responsibility. Your Franchised Business must, at all times, be staffed with at least one (1) individual who has successfully completed our initial training program as set forth in Section 8 below. You will keep us informed at all times of the identity of any person acting as General Manager of a Franchised Business. If a General Manager resigns or is otherwise terminated, you will hire a replacement approved of in writing by us who meets our then-current standards for a General Manager within thirty (30) days after termination or resignation of the prior General Manager. You must train the new General Manager within thirty (30) days from hiring. We reserve the right to require the new General Manager to attend our initial training program with the cost of the training to be paid by you. Any General Manager(s) must devote their full time and best efforts to the day-to-day operation and management of the Franchised Business and cannot engage in any other business activity without our prior written consent.

1.7 Incorporation of Recitals.

The Recitals of this Agreement are incorporated in and made a part of this Agreement by this reference.

2. FEES

2.1 Initial Franchise Fee and Training Fee.

(a) As consideration for the license to use the System and the Marks to operate the Franchised Business, you must pay us a lump sum initial franchise fee ("**Initial Franchise Fee**") in the amount of Seventy Thousand Dollars ($70,000) for your first Marketing Area upon executing this Agreement. The Initial Franchise Fee is reduced to Thirty-Five Thousand Dollars ($35,000) for your second and each subsequent Marketing Area. A marketing area is a territory that contains a minimum of sixty

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thousand (60,000) households and a maximum of two hundred thousand (200,000) households with at least twenty thousand (20,000) of those households having an annual household income of One Hundred Fifty Thousand Dollars ($150,000) or greater. The Initial Franchise Fee is fully earned and non-refundable upon payment.

(b) You must pay us a lump sum, non-refundable initial training fee of Fourteen Thousand Dollars ($14,000) ("**Initial Training Fee**") upon executing this Agreement. Initial training is described further Section 8.1 below. We may charge you fees for additional training or optional training courses and for on-site or virtual operating assistance you request and that we, in our sole discretion, agree to provide. The cost for additional in-person or virtual classroom training ranges from One Hundred Dollars to Two Hundred Fifty Dollars ($100 - $250) per person, per day. The cost for on-site or virtual assistance is Four Hundred Dollars ($400) per trainer per day, plus expenses for travel, lodging and meals, if applicable.

2.2 Continuing Royalty Fee.

(a) You must pay us a continuing, non-refundable royalty fee equal to six percent (6%) of your monthly Revenues, as defined in Section 2.2(b) below ("**Royalty Fee**"). A royalty report in the manner prescribed by us must be submitted by the fifteenth (15th) day of each month. The Royalty Fee is due and payable to us on or before the twentieth (20th) of each month for the prior month's Revenues. Payment of the Royalty Fee will be made by electronic funds transfers or any other manner prescribed by us from time to time.

(b) Revenue is based on standard revenue recognition practices. "**Revenues**" means the total revenue derived from all installations and the sale of non-installed Products, such as clothes hangers, whether for cash or credit, including any payments made under any policy of business interruption insurance relating to the Franchised Business, excluding applicable sales taxes, use taxes, gross receipts taxes, and other similar taxes added to the sales price and collected from the customer, and any bona fide refunds, rebates, and discounts.

(c) You must deposit all Revenues from the operation of your Franchised Business into one bank account within five (5) business days of receipt, including cash, checks, and credit card receipts. Before opening your Franchised Business, you must provide us with your bank name, address and account number, a voided check from the bank account, and sign and give us and your bank, all documents, including Exhibit G to this Agreement, necessary to effectuate any electronic funds transfer ("**EFT**") we designate. You will immediately notify us of any change in your banking relationship, including, without limitation, changes in account numbers.

2.3 CXM License Fee.

You are required to pay to us a license fee for the specified CXM platform we require you to use. The CXM is a full-cycle customer experience management software and database application.

(a) If we require you to use the California Closets® Dashboard platform ("**CC Dashboard**"), you are required to pay us One Hundred Ninety-Seven and 50/100 Dollars ($197.50) per quarter per designer ("**CC Dashboard Fee**") for each CC Dashboard license. We will pay the CC Dashboard Fee we collect from you to the third-party vendor that provides the licenses. We may, at any time during the Term, increase the CC Dashboard Fee to pass on the cost of any increases charged to us by the third-party vendor. If at any time during the Term of this Agreement we change the job management software and database application you are required to use, you are required to discontinue use of the CC Dashboard platform and use only the license for the new CXM platform from a third-party vendor per our direction. The CC Dashboard Fee is due and payable to us quarterly upon your receipt of our invoice.

(b) If we require you to use the Salesforce CXM platform, you are required to pay us a fee of: (i) Three Hundred Dollars ($300) per quarter for each designer, customer support staff and sales manager license you purchase, (ii) Seventy-Five Dollars ($75) per quarter for each installation manager

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and installer license you purchase, and (iii) Two Hundred Forty Dollars ($240) per quarter for each other user license (collectively, "**Salesforce License Fee**"). The Salesforce License Fee is due and payable to us quarterly upon your receipt of our invoice. We will pay the Salesforce License Fee to the third-party vendor that provides the licenses. We may, at any time during the Term, increase the Salesforce License Fee based upon changes in fees charged by the third-party vendor. If at any time during the Term of this Agreement we change the customer experience management program you are required to use, you are required to discontinue use of the Salesforce CXM application and use only the license for the customer experience management program from a third-party vendor per our direction.

2.4 CXM Platform Fee.

You are required to use the designated CXM platform. If we require you to use the Salesforce CXM platform, you are required to pay us a quarterly fee of 0.15% of your installed Revenue ("**Platform Fee**"). The Platform Fee is due and payable to us quarterly upon your receipt of our invoice. We will pay the Platform Fee to the third-party vendor. We may, at any time during the Term, increase the Platform Fee based upon changes in fees charged by the third-party vendor. If at any time during the Term of this Agreement we change the customer experience management program you are required to use, you are required to discontinue use of the Salesforce CXM the customer experience management program from a third-party vendor per our direction.

2.5 SEM Fee.

The SEM fee is for digital lead generation campaigns and tactics managed by us and includes, without limitation, the cost of search engine marketing ("**SEM**"), digital retargeting media, digital prospecting media and agency fees (collectively, "**SEM Fee**"). The national Marketing Fund (defined in Section 10.3 of this Agreement) subsidizes the SEM Fee by paying a portion of the SEM Fee, the amount of this subsidy varies upon our discretion. The SEM Fee, less the amount paid by the national Marketing Fund, is the amount of the SEM Fee you are required to pay us monthly upon receipt of the invoice from us. The SEM Fee will vary from month-to-month. We will provide to you, upon written request, a report and supporting documentation, as applicable, regarding SEM strategy and the SEM Fee for the prior quarter; provided, however that you agree to maintain such report and documentation in strict confidence in accordance with your confidentiality obligations under this Agreement and shall not disclose, share, license, transfer, post, upload, or otherwise communicate the content of such report and documentation to any other person for any purpose without our prior written consent. You further agree to destroy all reports and documentation upon termination or expiration of this Agreement or upon receipt of our earlier written request.

2.6 Currency, No Set-Off, Abatement or Deductions.

All amounts payable pursuant to this Agreement will be made in the lawful currency of the United States and shall be paid to us by electronic funds transfer unless we designate another manner of payment. You are responsible for making all payments when due, without the necessity of any demand therefor, and without any set-off, abatement or deduction.

2.7 Non-Sufficient Funds Fee.

A non-sufficient funds fee in the amount of Thirty Dollars ($30) ("**Non-Sufficient Funds Fee**") will be charged each time we attempt to make an electronic funds transfer from your back account to pay a fee due and payable under this Agreement and the payment is rejected due to non-sufficient funds in your bank account. After we receive notice of the non-sufficient funds, we will wait three (3) days before attempting to make the transfer again. If the transfer is rejected a second time, a second Non-Sufficient Funds fee will be charged to you. The Non-Sufficient Funds Fee may be charged in addition to other remedies available to us under this Agreement.

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2.8 Interest on Late Payment.

Any fees due to us which are not paid within five (5) days of their due date will bear interest until paid at the lower of: (a) one and one-half percent (1.5%) per month; or (b) the highest permissible interest rate chargeable under applicable law. The assessment of a late charge by us and the payment thereof are all without prejudice to any other rights or recourse which we may have under this Agreement or any applicable law.

2.9 Breaching Royalty Fee.

If you are in default or breach of any term or provision of this Agreement, we may increase the Royalty Fee up to eighteen percent (18%) ("**Breaching Royalty Fee**") from the date the default or breach occurred until the date it is cured. The minimum period the Breaching Royalty Fee will be charged is seven (7) days. We will send one written default notice to you prior to assessing the Breaching Royalty Fee.

2.10 Admin Fee.

If we send: (i) a document to you with terms you and we have agreed to, or (ii) a document for you to acknowledge receipt for an item you have received from us, and we are required to send it to you for signature or acknowledgement more than three (3) times within a six (6) month period and it is not due to any fault of ours, or if the document has not been signed by you within three (3) months of your receipt of the document from us and it is not due to any fault of ours, we may charge you a non-refundable Admin Fee in the amount of Two Hundred Fifty Dollars ($250).

2.11 Redraft Fee.

If we prepare a document with terms you and we have agreed to and you do not sign the document within three (3) months from the date we sent it to you, and this delay causes us to have to redraft the document and resend it to you for signature, we may charge you a non-refundable redraft fee in the amount of Seven Hundred Fifty Dollars ($750).

3. TERM AND RENEWAL OF FRANCHISE

3.1 Term.

This Agreement, unless otherwise terminated pursuant to the terms and conditions contained in this Agreement, will begin on the Effective Date and shall continue in full force and effect for a period of ten (10) years ("**Term**").

3.2 Renewal.

You will have the right to renew this Agreement for additional ten (10) year terms (each a "**Renewal Term**"), if you give us written notice of your intent to exercise your renewal right no less than six (6) months prior to the expiration of the Term and you meet all of the following conditions:

(a) You prepare and submit to us a business plan in such form as we may then designate at least sixty (60) days prior to the commencement date of the Renewal Term;

(b) You pay a renewal fee not to exceed fifty percent (50%) of the then-current initial franchise fee for our new franchisees ("**Renewal Fee**") per Marketing Area at least five (5) days before the renewal term begins and you reimburse us for costs and expenses (including, without limitation, legal fees and disbursements) incurred by us in connection with approving your renewal;

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(c) You are not in default of any provision of this Agreement, as amended or restated from time to time, or any other agreement between you and us or our affiliates, and you substantially complied with all of the terms and conditions of such agreements throughout the Term;

(d) You satisfied all monetary obligations you owe to us, our affiliates, and our approved/designated suppliers and vendors;

(e) You satisfied all of the performance criteria provided in the Operations Manual in each of the two (2) most recent performance reviews of the Franchised Business conducted by us;

(f) You have executed all documents and agreements then customarily used by us in connection with a renewal, including our then-current form of franchise agreement, the terms and conditions of which may differ materially from this Agreement, including, without limitation, the royalty and other fees charged by us which may be increased;

(g) You sign a general release in the form we prescribe;

(h) You demonstrate to our satisfaction that you have the right to operate the Franchised Business at the Approved Location(s) for the duration of the Renewal Term; or, if you are unable to operate the Franchised Business at the Approved Location(s), you have secured a substitute location acceptable to us for the Renewal Term;

(i) At least thirty (30) days prior to the commencement date of the Renewal Term, you have completed to our reasonable satisfaction, all maintenance, retrofitting and upgrading of the vehicles, equipment, hardware, software, furnishings, signs, décor and premises used by you in connection with the Franchised Business as may be necessary to comply with the then current standards and specifications for new franchisees;

(j) You have demonstrated, to our reasonable satisfaction, that you have the financial resources to expand the Franchised Business by opening additional Showrooms or Design Centers in the number and within the time periods determined by us in our sole discretion;

(k) Upon renewal of this Agreement, you and the General Manager each attend and successfully complete, to our reasonable satisfaction, such additional training as we may then require all renewing franchisees to complete, which training shall be held at a location to be determined by us. You will be responsible for all costs associated with such training, including, without limitation, payment of our then-current training fee as well as all travel, meals and accommodation expenses for both you and the General Manager; and

(l) Notwithstanding anything to the contrary in this Agreement, if there is a conflict between the renewal rights granted in this Section 3.2 and the renewal rights granted to you by any applicable local, state or federal law, the renewal rights most favorable to you will prevail.

4. MARKS

4.1 Your Use of the Marks and Other Proprietary Material.

(a) You must use only the Marks which we designate from time to time and must use them only in the manner we authorize and permit.

(b) You must use the Marks only for the operation of the Franchised Business and in advertising for the Franchised Business.

(c) You will use all Marks without prefix or suffix and in conjunction with the symbols “TM,” “SM,” “S,” or “®,” as applicable. You may not use the Marks in connection with the offer or sale of any

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services or products which we have not authorized for use in connection with the System. You may not use the Marks as part of your legal entity name. Your corporate name and all fictitious names under which you propose to do business must be approved by us in writing before use. You must use your legal entity name either alone or followed by the initials "D/B/A" and the trade name “California Closets®.” You must promptly register at the office of the county in which your Franchised Business is located, or such other public office as provided for by the laws of the state in which your Franchised Business is located, as doing business under such assumed trade name.

(d) You must identify yourself as the owner of the Franchised Business (in the manner we prescribe) in conjunction with any use of the Marks including, without limitation, on invoices, order forms, customer contracts, receipts, customer forms and questionnaires, business stationery, and advertisements, as well as at such conspicuous locations at the Approved Location(s) as we may designate or as may be required by law or a state or federal government agency.

(e) Your right to use the Marks is limited to such uses as are authorized under this Agreement, and any unauthorized use thereof will constitute an infringement of our rights.

(f) You will not use the Marks to incur any obligation or indebtedness on our behalf.

(g) You will execute all documents we deem necessary to obtain protection for the Marks or to maintain their continued validity and enforceability.

4.2 Litigation Relating to the Marks.

You must promptly notify us of any suspected unauthorized use of the Marks and Proprietary Material we may now or hereafter designate for use in connection with the System, any challenge to the validity of the Marks, or any challenge to our ownership of, our right to use and to license others to use, or your right to use, the Marks, any designated proprietary material (including, without limitation, software and business processes and works protected by copyright laws), and the Operations Manual (individually and collectively, “**Proprietary Material**”). You acknowledge that we have the sole right to direct and control any administrative proceeding or litigation involving Proprietary Material, including, without limitation, any settlement thereof. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of our rights to any Proprietary Material. We will defend you against any third-party claim, suit, or demand arising out of your use of any Proprietary Material. If we, in our sole discretion, determine that you have used any Proprietary Material in accordance with this Agreement, we will bear the cost of such defense, including the cost of any judgment or settlement. If we, in our sole discretion, determine that you have not used Proprietary Material in accordance with this Agreement, you will bear the cost of such defense, including, without limitation, the cost of any judgment or settlement. In the event of any litigation relating to your use of the Proprietary Material, you agree to execute any and all documents and do such acts which in our opinion are necessary to carry out such defense or prosecution including, without limitation, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Proprietary Material in a manner inconsistent with the terms of this Agreement, we agree to reimburse you for your out-of-pocket costs in performing such acts.

4.3 Your Acknowledgements Regarding Marks.

(a) We or our affiliates or licensors own all right, title, and interest in and to the Marks and the goodwill associated with and symbolized by them, and we have the right to use, and license others to use, the Marks;

(b) The Marks are valid and serve to identify the System and those who are authorized to operate under the System;

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(c) During the Term of this Agreement and after its expiration or termination, you will not directly or indirectly contest the validity of, or our ownership of, or right to use and to license others to use, the Marks or any other Proprietary Material;

(d) Your use of the Proprietary Material does not give you any ownership interest or other interest in or to the Proprietary Material;

(e) Any and all goodwill arising from your use of the Proprietary Material will inure solely and exclusively to our benefit, and upon expiration or termination of this Agreement, no monetary amount will be assigned as attributable to any goodwill associated with your use of the System, the Marks, or any other Proprietary Material;

(f) Except as specified in Section 1 above, the license of the Marks granted to you hereunder is nonexclusive and we retain the rights, among others, (i) to use the Marks in connection with selling Products and Services; (ii) to grant other licenses for the Marks; and (iii) to develop and establish other systems using the Marks, similar proprietary marks, or any other marks, and to grant licenses thereto without providing any rights therein to you; and

(g) We have the right to substitute different marks for use in identifying the System and the businesses operating thereunder. You must discontinue using all Marks which we have notified you in writing have been modified or discontinued within (10) days of receiving written notice and, at your sole cost and expense, you must promptly begin using such additional modified or substituted Marks.

4.4 Right of Inspection.

To preserve the validity and integrity of the Marks and to assure that you are properly employing the same in operation of the Franchised Business, we and our agents have the right at all reasonable times to inspect your Approved Location(s) and any job site, and make periodic evaluations of the Services provided and the Products sold and used in connection with the operation of the Franchised Business. You must cooperate with us and our agents and provide such assistance as we may reasonably request.

4.5 Domain Names and Social Media.

You hereby irrevocably assign to us all right, title and interest that you may have now or in the future in any domain name or social media or networking site (including, without limitation, identity, followers or content) that you utilize in the operation of the Franchised Business, whether the domain name or use of the site was approved by us.

4.6 Telephone Numbers and Franchised Business Listings.

You must obtain a new telephone number and provide adequate telephone service for the Franchised Business at your expense, to be listed under the "California Closets®" name and not under your corporate, partnership, or individual name, to be used exclusively in connection with your operation of the Franchised Business. We have the right at any time to require that you utilize one or more designated phone numbers or call centers in addition to, or in place of, local telephone numbers. You must sign the Telephone Number Assignment Agreement and Power of Attorney attached as Exhibit C to and incorporated in this Agreement by reference, conditionally assigning to us each such telephone number and all listings in all mediums associated with the Franchised Business, including, without limitation, telephone books, Google®, Yahoo!®, Bing® and any other online listings utilized by you in the operation of the Franchised Business. Upon the expiration, transfer or termination of this Agreement for any reason, you must terminate your use of such telephone number and listing and assign the same to us or our designee.

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5. OUR OBLIGATIONS AND RESERVED RIGHTS

5.1 Our Obligations.

(a) We will loan you one copy of the Operations Manual, as discussed in Section 1 above.

(b) We will provide you with specifications and requirements for computer hardware, software, and other electronic equipment required to operate your Franchised Business.

(c) We will provide specifications for and designate sources of supply from which you agree to purchase inventory, Products and supplies necessary for the start-up and ongoing operations of your Franchised Business.

(d) We have the right but not the obligation to collect the Pre-Opening and Initial Marketing as described in Section 10.5 below prior to opening and, to implement a Pre-opening and Initial Marketing and promotions program on your behalf during your first three (3) months of operation.

(e) We will provide you continuing consultation and advice as we deem necessary and appropriate regarding the management and operation of the Franchised Business. We will provide such assistance at our discretion by telephone, facsimile, intranet communication and on-site visits. If you require and request additional on-site assistance from us, subject to the availability of our staff, we will provide you with such assistance at our then-current training fee, plus expenses, including, without limitation, our travel and lodging expenses.

(f) We have the right, but not the obligation, to establish and maintain a toll-free telephone number for the purposes of accepting and confirming customer orders nationwide and, providing customer service, customer follow-up and satisfaction surveys. If we establish a toll-free number, you must comply with our procedures for implementing the nationwide service as we specify in the Operations Manual or otherwise in writing.

(g) We may, in our discretion, hold an annual franchise conference at a location to be selected by us ("**Annual Conference**"). We will determine the topics and agenda for such conference to serve the purpose, among other things, of updating franchisees on new developments affecting franchisees, exchanging information between franchisees and our personnel regarding Franchised Business operations and programs, and recognizing franchisees for their achievements and contributions to the System. We may require you to attend the Annual Conference, and to pay our then-current registration fee. All expenses, including, without limitation, your and your employees' transportation to and from the Annual Conference, and lodging, meals, and salaries during the Annual Conference, are your sole responsibility. We may, in our sole discretion, hold refresher and ongoing training courses, or training courses upon a significant change to the Franchise System. We may require you and your relevant affected employees to attend such training up to four (4) days per year, at a location to be selected by us. All expenses, including, without limitation, your and your employees' transportation, meals, and lodging expenses, to attend such training will be your sole responsibility. We may also offer online training courses on topics including, without limitation, management, coaching, and conflict resolution.

5.2 Our Reserved Right to Solicit Leads.

You understand and agree that certain rights are reserved to us, including, without limitation, our right to advertise for and solicit the names, addresses and telephone numbers of prospective customers of Services or Products within your Marketing Area (individually a "**Lead**" and collectively, "**Leads**"). We may solicit Leads in any manner whatsoever, including, but not limited to, adding displays at other businesses, distributing mail order catalogs, creating direct response programs, soliciting customers through our website or any other website or any Internet, web or other electronic resource, direct mail marketing, and telephone sales. If we receive a Lead to perform Storage Space Services in the Marketing Area, we will first contact

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you to determine if you are able to timely service the Lead. If you are unable to timely service such Lead, the parties agree that we may assign such Lead to our affiliate or another franchisee. If you accept Leads that we refer to you, you agree that we may charge you the cost of the Lead that we are charged by any Lead generating company. Notwithstanding the foregoing, you understand and agree that we shall have the right to perform any trade and/or commercial work covered under a national or regional contract with us or our affiliate in the Marketing Area upon prior notice to you.

5.3 Promotions and Strategic Alliances.

We may from time to time establish or sponsor local, regional or national promotions or campaigns, or enter into strategic alliances with local, regional or national third-party vendors, which promotions or alliances will be designed to promote the Marks and the System and to enhance the sale of Services and Products. You will have the right, but not the obligation, to participate in such promotions or alliances provided that, if you choose to participate in such promotions or alliances, you must abide by each of the terms and conditions of such promotions and alliances, which terms and conditions may, among other things, establish maximum prices for your Products or Services or require you to pay a commission to us or third party.

If you elect to participate in any particular promotion or alliance then being sponsored by us, we shall refer all Leads originating within your Marketing Area directly to you, and you must provide Services to the Leads in accordance with the terms, conditions and rules of the specific promotion or alliance. If you do not participate in a particular promotion or alliance, we will have the unconditional right to terminate your participation in such promotion or alliance and to assign any Leads, including, without limitation, Leads originating within your Marketing Area, to any other franchisee participating in such promotion or alliance. In such case, you understand and agree that the franchisee to which such Leads are assigned will have the right to provide Services to such Leads in your Marketing Area and you will have no rights to receive any compensation with respect to such Leads.

5.4 Certain Other Rights Reserved to Us.

Notwithstanding anything to the contrary contained elsewhere in this Agreement, you expressly understand and agree that we reserve certain rights, including, without limitation, the right to: (a) market, offer and sell Products, Non-Residential Services or Manufacturing Services independently or through our affiliates or designees, within and outside of your Marketing Area; (b) market, sell, and license others to market and sell products of any kind, including, without limitation, ready-to-assemble products and accessories (such as hangers, baskets, garment bags, storage boxes and other accessories) bearing the Marks or other marks, to any customer whether located within or outside of your Marketing Area, by any and all means of distribution, including, without limitation, the sale of Products through wholesale distributors, retail chains or outlets, via mail and telephone orders, catalog sales, Internet or web based sales or otherwise; (c) use and license the use of alternative marks or methods in connection with the operation of businesses providing Residential Services, Manufacturing Services, Non-Residential Services or other products and services under names which are not the same as or confusingly similar to the Marks, which businesses may be the same as, or similar to, or different from the Franchised Business, without regard to location; (d) acquire, be acquired by, or merge with any company, including, without limitation, a company operating one or more storage space and organizational system services and/or organizational accessory businesses, and convert any business location of such company, whether located or operating within and/or outside of your Marketing Area, to the Marks and the System; (e) service National Accounts, as set forth in Section 5.5 below; (f) require that an advertising cooperative and/or franchisee advisory council be formed, changed, dissolved or merged; and (g) engage in any other activities not expressly prohibited by this Agreement. You have no right to receive any compensation from any Products we or our designated licensee, supplier or agent sell, or Non-Residential Services or Manufacturing Services provided by us or our designated licensee, provider or agent in your Marketing Area.

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5.5 National Accounts.

We shall have the exclusive right (unless otherwise specifically delegated in writing), on behalf of us, you, and/or other franchisees utilizing the Marks, to negotiate and enter into agreements or approve forms of agreement to provide Services to National Account customers, including any affiliate, company-owned, or franchised locations within your Marketing Area. "**National Account**" means any customer which on its own behalf or through agents, franchisees, licensees or other third parties, owns, manages, controls or otherwise represents multiple locations at which the Products are required and/or Services are performed regardless of the aggregate contract amount of the services to be performed. Any dispute as to whether a particular customer is a National Account shall be determined by us in our sole discretion and our determination shall be final and binding.

(a) If we execute a contract with a National Account customer which contemplates the provision of Services to one or more National Account locations or National Account clientele within or outside of your Marketing Area, we have the right independently or through other franchisees, licensees, or third parties to provide Residential and Non-Residential Services to National Accounts using the System and Marks. We may but are not obligated to provide you with the option to perform such Services pursuant to the terms and conditions of the National Account contract or on such terms and conditions as we in our discretion determine is appropriate if, you are qualified to perform the Services, and you are substantially compliant with the terms of this Agreement and any addenda.

(b) Neither the direct provision by us (or our affiliates, franchisees, licensees, or agents) of Services to National Account customers nor our contracting with another party to provide such Services as authorized in Section 5.5(a) above, shall constitute a violation of Section 1.2 above relating to your Marketing Area. You disclaim any compensation or consideration for work performed by others in your Marketing Area pursuant to this Section 5.5.

6. YOUR OPERATIONAL OBLIGATIONS

6.1 Operating Capital Requirements.

During your first year of operation, you will maintain operating capital equal to at least five percent (5%) of the estimated and agreed upon installed Revenue for the first year of your Growth Metrics (as defined in Section 6.5 below) plus the amount of current customers' deposits. After your first year of operation, you will maintain operating capital, including established and unused lines of credit, equal to at least five percent (5%) of your prior year's installed Revenues plus the amount of current customers' deposits.

6.2 Customer Deposits.

Customer deposits received by you in respect of any particular customer shall be deposited in your designated bank account within five (5) business days of receipt and shall not be withdrawn, except to purchase materials needed to complete the job, until all work for the customer has been substantially completed by you. For purposes of this Section 6.2, the term "substantially completed" means that the closet(s) and/or other storage system(s) are sufficiently complete to the point where the customer can use the closet(s) and/or other storage system(s) for their intended use with the exception of minor items such as accessories and/or special-order items to be completed separately. Such deposits must be classified as a current liability (deferred revenue) on the balance sheet of the Franchised Business and not recognized as revenue until the job is substantially completed.

6.3 Technology Platform.

(a) You agree to purchase, maintain and upgrade the computer hardware, services and software, including, without limitation, accounting software (individually and collectively, "**Technology Platform**"), we specify from time to time in the Operations Manual. The Technology Platform must be

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capable of efficiently running the software that we require you to use and an operating system that meets any security standards that we may require. We reserve the right to modify specifications for and components of the Technology Platform from time to time, including requiring you to purchase, lease and/or license new or modified computer hardware, services and/or software and to obtain technical service and support for the Technology Platform. In addition, we have the right to require you to enter into a separate maintenance and/or licensing agreement for such computer hardware and/or software. We reserve the right to require you to install a system backup solution which backs up critical data in the Technology Platform using off-premises storage architecture. Notwithstanding the fact that you must buy, use and maintain the Technology Platform in accordance with our standards and specifications, you will have the sole and complete responsibility for: 1) the acquisition, operation, maintenance and upgrading of any elements of the Technology Platform; and 2) any and all consequences that may arise if the Technology Platform is not properly operated, maintained and upgraded.

(b) You agree to obtain, maintain, and upgrade any proprietary hardware, software, or related technology platforms we may designate in the future in connection with the System, and to comply with all specifications and standards prescribed by us regarding any Technology Platforms as provided from time to time in the Operations Manual.

(c) You are required to participate in any System-wide computer network, intranet system or extranet system that we implement and may be required by us to use the computer network, intranet system or extranet system to, among other things: (i) submit your reports due under this Agreement to us electronically; (ii) view and print updates to or portions of the Operations Manual; (iii) download approved local advertising materials; (iv) communicate with us and other System franchisees; and (v) complete training. You agree to use the facilities of any such area computer network, intranet system or extranet system in strict compliance with the standards, protocols, and restrictions that we include in the Operations Manual, including, without limitation, those related to the encryption of confidential information and prohibitions against the transmission of libelous, derogatory, or defamatory statements.

(d) You agree to use the required CAD software as we designate to you and may change from time to time during the Term. The required CAD software is included in the Operations Manual, which may be updated. The CAD software generates, stores and reports data on the design, production, and installation of customers' jobs. The CAD fees will be charged to you directly from the approved vendor and are subject to increase by the vendor.

6.4 Opening.

(a) You will open a Showroom or Design Center at the at the Approved Location within twelve (12) months from the Effective Date of this Agreement. You must begin offering and selling Manufacturing Services from your manufacturing facility at the time your Showroom or Design Center opens for business. If we have not approved a location for you to operate the Franchised Business as of the date you sign this Agreement, the parties will enter into the Site Selection Addendum attached as Exhibit E to and incorporated by reference in this Agreement, the terms of which will govern the parties' site selection obligations. You may not relocate the Franchised Business without our prior written consent. In addition, you agree to open such additional Showrooms or Design Centers as we may hereafter determine are necessary to service demand for Products and Services in your Marketing Area. Our determination of the number of Showroom or Design Center facilities required from time to time to service your Marketing Area will be based on factors set forth in the Operations Manual, as well as other business tools developed and utilized by us from time to time. You must obtain our written permission prior to opening, which we will condition upon the following: (i) you or the General Manager successfully completing our initial training program; (ii) you purchasing all supplies, equipment, inventory, signage and other materials required to open the Showroom or Design Center; and (iii) we have approved, in writing, a Lease for the Showroom or Design Center; and (iv) the Showroom or Design Center has been built out to our standards and specifications. You may not open a Showroom or Design Center outside of your Marketing Area.

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(b) You must maintain the Franchised Business in a clean, safe, and attractive manner, and in accordance with all applicable requirements of law, including all applicable federal, state and local health and building code laws and regulations, and the Operations Manual. You and your employees must give prompt, courteous and efficient service to the public and otherwise operate the Showroom or Design Center so as to preserve, maintain and enhance the reputation and goodwill of the System.

(c) You agree to repair, refinish, repaint, replace, remodel and/or otherwise redo the Showroom or Design Center, the signs, the furnishings, fixtures, decor, and any other tangible part or property of the Showroom or Design Center, any equipment necessary to provide Manufacturing Services at your sole expense at such times as we may reasonably direct. We have the right to direct you to remodel, re-equip, and otherwise refurbish the Showroom or Design Center and manufacturing facility in the manner necessary to bring it into conformance with the type of Showrooms or Design Centers and manufacturing facilities that we and our franchisees are opening at the time.

6.5 Market Share.

You must meet or exceed your yearly market share by increasing your installed Revenue in your Marketing Area as set forth in the table below, and as will be mutually agreed upon by you and us each year during the Term of this Agreement ("**Growth Metrics**"). After written notice of failure to meet the Growth Metrics you will have up to ninety (90) days after the date of notice to cure or, if the default is of such a nature that it cannot be cured within ninety (90) days you will be given an additional reasonable period of time to cure; provided that you reasonably commence and continue with all necessary efforts to complete the cure within the agreed time period. If you continue to fail to meet the Growth Metrics after the foregoing cure period, we may (i) reduce the size of your Marketing Area to a population level that more closely reflects your actual productivity level; or (ii) terminate your Franchise Agreement if the Growth Metrics are not met within an additional thirty (30)-day cure period as set forth in Section 14 of this Agreement.

For your first year of operation, you agree to grow your market share during the 2023 calendar year for each of the following regions as set forth in the table below. Thereafter, annually no later than October 1st, you and we will discuss and agree upon your Growth Metrics for then-following calendar year, based on without limitation, customer demographics and market data.

Region	2023 Installed Revenue	% of Total Installed Revenue
TOTAL		

Growth Metrics are determined in consideration of, but not limited to, the following criteria: market share data provided by our marketing or other team, number of installers and designers in your Franchised Business, your annual financial plan, your market plan, historical data for your Franchised Business and your trade business, which criteria may be changed from time to time in our sole discretion based upon the needs of the System. The growth area is for your owned Marketing Area only and does not include any Service Territory. The criteria used to determine your Growth Metrics are based solely on your Marketing Area and not a system-wide or other average. Notwithstanding the foregoing, the parties agree that if the United States enters into an economic recession, as declared by the National Bureau of Economic Research, during the Term, the parties shall meet and evaluate whether any changes to the Growth Metrics are needed. Additionally, if at any time during the calendar year you experience a material event that you believe impacts your ability to meet or exceed your Growth Metrics, whether as a whole or in a particular region of your Marketing Area, you shall provide written notice of such material event to the President of Franchising. You shall thereafter meet with the President of Franchising within thirty (30) days to discuss the issues and potential options for resolution and this Agreement will be amended, as needed, to reflect any required and agreed upon changes.

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6.6 Customer Satisfaction.

You and all of the employees of the Franchised Business must comply with the customer experience and satisfaction requirements, as well as all warranties, set forth in the Operations Manual, as may be amended. These include, without limitation, response time to address customer inquiries, complaints and return visits. We may survey customers in the manner set forth in the Operations Manual to obtain your net promoter score ("**NPS**") which we use to determine customer satisfaction levels. Your monthly NPS, as determined by the President of Franchising, cannot decrease by twenty (20) points or more below the monthly average of all California Closets® operators for any cumulative three (3) months within a calendar year with zero exclusions. Any jobs not marked complete may not have a survey sent to the customer.

6.7 Compliance with Standards.

You acknowledge and agree that your obligations set forth in this Agreement and the Operations Manual are reasonable and necessary for the operation of the Franchised Business and to maintain uniformity throughout the System. You must adhere to the standards and specifications set forth in this Agreement and the Operations Manual and any revisions or amendments to the Operations Manual (including, without limitation, using our approved and designated suppliers; installation standards and specifications; and standards for equipment, fixtures, and signage used at the Showroom or Design Center). Such standards and specifications include, without limitation: (a) manufacturing closet and storage solutions for residential purposes; (b) offering and selling Manufacturing Services to other franchisees; and (c) warranties, fulfillment schedules, maximum pricing and payment and receivable terms related to providing Manufacturing Services. We have the right to change our standards and specifications in the Operations Manual at our discretion. You acknowledge that you may incur an increased cost to comply with such changes at your expense.

6.8 Designated and Approved Suppliers.

You recognize that preservation of the System depends upon Product and Service uniformity and the maintenance of our trade dress. You agree to purchase inventory, equipment, furnishings, displays, supplies, fixtures, computer hardware and software, and other products and services used in connection with the Franchised Business from us or from approved or designated suppliers as we specify from time to time in the Operations Manual and otherwise in writing. You hereby acknowledge that we, our affiliates and/or a third party may be one of several, or the only, approved supplier of any item. You further acknowledge and agree that we and/or our affiliates have the right to realize a profit on any items or services supplied to you.

6.9 Suppliers for Storage Solutions.

You agree to obtain our prior written consent before engaging any supplier to provide you with any components for finished closet, home office, pantry, media, laundry room craft room and garage storage solutions, including, without limitation, shelving and cabinetry, offered or sold by the Franchised Business, which we will condition upon each approved third-party supplier's execution of a supply agreement in a form approved by us. We may, in limited circumstances and with our prior written approval, grant you the temporary right to provide Services to another California Closets® franchisee.

6.10 Supplier Approval.

If you wish to purchase any unapproved item, including, without limitation, inventory, shelving and cabinetry, and/or acquire approved items from an unapproved supplier, you must provide us the name, address and telephone number of the proposed supplier, a description of the item you wish to purchase, and the purchase price of the item, if known. At our request, you must provide us with a sample of the item you wish to purchase for testing purposes. Nothing in the foregoing will be construed to require us to

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approve any particular supplier. We may base our approval of any such proposed item or supplier on considerations relating not only directly to the item or supplier, but also indirectly to the uniformity, efficiency, and quality of operation we deem necessary or desirable in the California Closets® System as a whole. We have the right to receive payments from suppliers on account of their dealings with you and other franchisees and to use all amounts we receive without restriction (unless instructed otherwise by the supplier) for any purposes we deem appropriate. Nothing herein will require us to approve any certain number of suppliers for a given item, when such approval might, in our reasonable judgment, result in higher costs or prevent the effective or economical supervision of approved suppliers. We may revoke our approval of particular Products or suppliers at any time if we determine in our sole discretion that such Products or suppliers no longer meet our standards. Upon receipt of written notice of such revocation, you must cease purchasing Products from such supplier. You must use Products purchased from approved suppliers solely in connection with the operation of your Franchised Business and not for any competitive business purpose.

6.11 System Suppliers.

We may establish business relationships, from time to time, with suppliers who provide Products and Services used in connection with the Franchised Business ("**System Suppliers**"). You recognize that such Products and Services are essential to the operation of the Franchised Business and to the System generally and that your failure to pay System Suppliers may interfere with their willingness to supply the System which may result in other System franchisees' inability to obtain Products and Services or, ability to obtain Products and Services on favorable credit terms. Accordingly, you agree to pay System Suppliers as and when due. You may enter into a distribution agreement with our affiliate, Cal Closets Fulfillment, Inc., or other approved vendors for company approved products. During the Term of this Agreement, the distribution agreement may be amended from time to time to add, remove, or modify products approved by us.

6.12 Authorized Products and Services.

You will offer for sale all Products and Services which we approve and only those Products and Services which we approve. Any other offerings require our prior written authorization. You will at all times maintain sufficient levels of inventory, as specified in the Operations Manual, to adequately satisfy consumer demand. You must offer and sell all private label Products which we may now or in the future designate for sale by System franchisees.

6.13 Image.

You acknowledge that we have developed the System to offer and sell Products and Services distinguishing the Franchised Business from other businesses offering residential storage solutions valued at different prices and with less attention paid to product quality and customer service. You agree to offer Products and Services and to operate the Franchised Business in such a manner that emulates and enhances the image intended for the System. You further acknowledge and agree that each aspect of the System is important not only to you, but also to us and to other System franchisees to maintain the highest operating standards, achieve system wide uniformity and increase the demand for the Products sold and Services rendered by System franchisees. You agree to comply with the standards, specifications, and requirements we set forth to uniformly convey the distinctive image of a California Closets® Franchised Business. You will, in the operation of the Franchised Business, use only displays, advertising materials, samples, labels, forms and other products imprinted with the Marks as prescribed from time to time by us.

6.14 Personal Conduct and Best Efforts.

You agree to refrain from committing any act or pursuing any course of conduct that tends to bring the Franchised Business, the System or other franchisees, or the Marks into disrepute. You must use best efforts to promote and increase the demand for the Products and Services authorized for sale by System franchisees. All of your advertising and promotion must be completely factual and conform to the highest

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standards of ethical advertising. You agree to refrain from any business or advertising practice which may be injurious to the Franchised Business or the goodwill associated with the Marks and System.

6.15 Payment of Debts.

You are solely responsible for selecting, retaining and paying your employees; the payment of all invoices for the purchase of all products of any kind and services used in connection with operating the Franchised Business; and determining whether, and on what terms, to obtain any financing or credit which you deem advisable or necessary for the conduct of the Franchised Business. You agree to pay all current obligations and liabilities to suppliers, lessors, and creditors on a timely basis. You must indemnify us if we are held responsible for your debts and we elect to pay any of your obligations to preserve the relationship between System Suppliers and System franchisees. You agree to make prompt payment of all federal, state and local taxes, including, without limitation, individual and corporate taxes, sales and use taxes, franchise taxes, gross receipts taxes, employee withholding taxes, FICA taxes, and personal property and real estate taxes arising from your operation of the Franchised Business. You agree to indemnify us if we are held responsible for these taxes.

6.16 Compliance with Applicable Laws and Regulations.

You must comply with all applicable federal, state and local laws, ordinances and regulations regarding the operation of the Franchised Business (including, without limitation, all federal, state, and local home improvement/contractor licensing laws and regulations, laws and regulations relating to contracting services, occupational hazards and health, consumer protection, trade regulation, worker's compensation, unemployment insurance, withholding and payment of federal and state income taxes and social security taxes and sales, use and property taxes, and the applicable provisions of the Americans with Disabilities Act ("**ADA**") regarding the construction, design and operation of the Franchised Business). You will have sole authority and control over the day-to-day operations of the Franchised Business and your employees and/or independent contractors. You agree to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the Franchised Business, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. At no time will you or your employees be deemed to be employees of us or our affiliates. You must use our approved form of residential home improvement contract ("HIC"). We recommend you have an attorney review the HIC prior to using it in your Marketing Area.

6.17 Pending Actions.

You must notify us, in writing, within five (5) days of the commencement of any action, suit, proceeding, investigation, inquiry or complaint and the issuance of any order, suit or proceeding of any court, agency or other government instrumentality, including the receipt of any notice or citation (individually and collectively, "**Action**"), which may adversely affect the operation or financial condition of you or the Franchised Business. You must work to address and resolve any Action in a timely manner.

6.18 Insurance.

You must purchase insurance for your Franchised Business with coverage and minimum policy limits we specify from time to time. Currently we require: (a) Commercial General Liability – One Million Dollars ($1,000,000) per occurrence with and aggregate limit of at least Two Million Dollars ($2,000,000), Products and Completed Operations Aggregate Limit – Two Million Dollars ($2,000,000), Each Occurrence – One Million Dollars ($1,000,000); (b) all risk casualty coverage for replacement value; (c) business interruption coverage; (d) owned, hired and non-owned automobile liability coverage of at least One Million Dollars ($1,000,000); and (e) worker's compensation insurance as required by your state, and Employer Liability (or Stop Gap, if applicable) coverage limits of One Million Dollars ($1,000,000). Your landlord or lender may require higher amounts of insurance or additional insurance coverage. Depending on the

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location of your Showroom or Design Center and office/warehouse, you may be required to obtain additional insurance such as flood or earthquake coverage.

Insurance carriers must be Best's rated B+, VII or better. All insurance policies must name us as additional insured and must contain a waiver of subrogation in our favor. You must always keep the minimum required insurance coverage in effect with no lapse in coverage. Upon thirty (30) days' notice to you, we may require you to increase the minimum coverage limits as of the next renewal date of any policy and require different or additional kinds of insurance. You must comply with any changes we may periodically make to the insurance requirements as specified in the Operations Manual. You must provide us with certificates of insurance or copies of insurance policies when you open your Franchised Business and each year upon renewal of your insurance policy, or if you change insurance companies, within thirty (30) days from the effective date of your new policy.

6.19 Van Requirements.

You must use an approved and properly branded vehicle in operating your Franchised Business, which must be no more than three (3) years old at the time you open. The van must be white, carry a minimum three-quarter (3/4) ton load and otherwise be in clean, operating condition. The van must bear decals and be equipped and designed in accordance with our standards and specifications, including, without limitation, your entity name, phone number, and contractor's number.

7. LEASE ARRANGEMENTS AND BUILDOUT

7.1 Lease Approval.

You must secure and maintain, by purchase or Lease, real estate for the operation of the Franchised Business throughout the Term of this Agreement. We have the right to review, evaluate and approve your proposed lease for the Approved Location(s) (individually and collectively, the "**Lease**") prior to execution. We may condition our approval of any proposed Lease on, among other things, you and your landlord's execution of a Collateral Assignment of Lease with Consent and Agreement of Lessor (attached as Exhibit F to and incorporated by reference in this Agreement) which (i) grants us the right, but not the obligation, to assume the Lease upon (a) your default on the Lease, or (b) termination, transfer or expiration of this Agreement; and (ii) authorizes and requires your landlord to disclose to us, upon our request, sales and other information you have furnished to the landlord. You must deliver an executed copy of the Lease and the Collateral Assignment of Lease to us within fifteen (15) days after the execution of the Lease. You understand and acknowledge that our approval of the Lease or the Approved Location(s) does not constitute a guarantee, assurance, representation, or warranty, express or implied, of the successful operation or profitability of the Franchised Business. Such approval of the Lease or the Approved Location(s) indicates only that we believe that the Lease or the Approved Location(s) complies with the requirements of this Agreement and that the Approved Location(s) falls within the acceptable criteria that we have established as of the time of such approval. You also understand and acknowledge that you assume all liability under the Lease, except for instances where we exercise our option to assume the Lease pursuant to the Collateral Assignment of Lease. You further acknowledge that you have been advised, and have been given the opportunity, to have an attorney and business advisor of your choosing review and evaluate the Lease.

7.2 Relocation.

If, for any reason, the Lease term is shorter than the Term of this Agreement and the Lease cannot be renewed or extended, or you cannot continue for any other reason to occupy the Approved Location(s), you must relocate your Franchised Business to a mutually acceptable site within your Marketing Area to complete the unexpired portion of the Term of this Agreement. You must notify us of your intention to relocate, procure a site acceptable to us within ninety (90) days prior to closing operations at your current Approved Location(s), and open for business at the new Approved Location(s) prior to or concurrent with the closing of operations at the current Approved Location(s).

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7.3 Appearance and Construction.

The Showroom or Design Center and manufacturing facility will conform to our standards and specifications for the appearance, layout, and design of a California Closets® Franchised Business. You are solely responsible for the preparation of architectural and working drawings necessary to complete construction and/or build-out at the Approved Location(s) and must ensure that plans meet with applicable ordinances, building codes, permit requirements, and any other applicable local, state, or federal laws. We will provide basic layouts and may suggest specialists in your Marketing Area who may be able to assist you with build-out. We must approve all plans before you begin construction / build-out. We must approve all subsequent, material changes to the plans and drawings before such changes may be implemented.

7.4 Opening.

You must open your manufacturing facility and at least one (1) Showroom or Design Center within twelve (12) months from the Effective Date of this Agreement. Failure to do so will result in termination of this Agreement.

7.5 Continuous and Exclusive Operation from Approved Location(s).

The Showroom or Design Center must remain open and operating for those days and hours we specify continuously throughout the Term of this Agreement and must be used exclusively for the operation of the Franchised Business. Any Lease renewal or new Lease shall be subject to our review as set forth in this Agreement. You further agree that you shall either maintain the existing manufacturing facility and Showroom or Design Center location(s) or move to a new location(s) without any business interruption. You must have your manufacturing facility and required number of Showrooms or Design Centers open at all times during the Term of this Agreement, unless otherwise agreed to in writing us.

8. TRAINING AND ASSISTANCE

8.1 Initial Training

The initial training program consists of: (a) your completion of our basic training program; (b) onsite training in your Marketing Area; and (c) a mentorship program conducted in your Marketing Area or the marketing area of an existing franchisee. You and your employees, as we designate, must complete our basic training program and you must complete such portions of the initial training program as designated by us before you open or operate the Franchised Business. We will designate the times and places for all aspects of the California Closets® basic training program and you must complete the on-site training and mentorship program within nine (9) months after the Effective Date of this Agreement. You must pay all expenses incurred by you and your employees in connection with training, including, without limitation, transportation costs, meals, lodging, salaries, and other living expenses.

8.2 Initial Manufacturing Certification.

You must attend and successfully complete our training program to achieve initial Manufacturing Certification. We reserve the right to require up to three (3) additional trainees to attend our training program along with you. If you are a partnership, corporation, or limited liability company, at least one (1) of the trainees must be your general partner, principal shareholder, or manager as appropriate. The training lasts up to five (5) days and will consist of instruction on using any required hardware or software, production and operational techniques, inventory management, materials procurement, logistics, sanitation and maintenance procedures, and maintenance of quality standards. Training will be held at our headquarters, or any other site we designate. All of your designated trainees must attend the training course at the same time. All training related expenses, including, without limitation, your and your employees' travel, meals, and lodging expenses, as well as your payroll expenses, are your sole responsibility. Our grant of Manufacturing Certification is contingent upon you and your employee(s) attending and successfully

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completing our Initial Manufacturing Certification Training class to our satisfaction before you can offer or sell Manufacturing Services. Should you or your employee(s) fail to complete the initial training program to our satisfaction, the respective person may repeat the course, or in the case of an employee, you may send a replacement ("**Replacement Personnel**") to the next available initial Manufacturing Certification training program. We may charge for such Replacement Personnel attending an initial training program. Failure by anyone to successfully complete training program on the terms above will constitute default of this Agreement and we may terminate this Agreement.

8.3 Ongoing Training and Certification.

We may from time to time require you to attend mandatory or optional training programs or courses at a location we designate, including designated training for you and/or your General Manager, regional meetings, classroom seminars, conventions and other training programs. We have the right to charge our then-current rates for such additional training. You are responsible for you and your General Manager's expenses to attend ongoing training, including, without limitation, transportation to and from the training site and lodging, meals, and salaries during such training.

8.4 Certification Quality Control.

To maintain Manufacturing Certification, you agree to submit to random and unscheduled visits of your manufacturing facility by us for the purpose of evaluating your provision of Manufacturing Services. You agree to implement within a reasonable time period all recommended improvements to your Manufacturing Services and, to undertake additional training we may recommend.

8.5 General Guidance.

After the Franchised Business is opened and operating, we will provide such assistance to you as we deem necessary and appropriate, subject to the availability of our team members at our then-current rates for such assistance. Such assistance may include, without limitation, advice and guidance regarding: (a) design, product specifications, and installation; (b) customer service standards and requirements; (c) the establishment of administrative, bookkeeping, accounting, inventory control and general operating procedures; and (d) marketing and use of the California Closets® brand in the Franchised Business.

8.6 Training of Employees by You.

You agree to implement any training programs for your employees prescribed in the Operations Manual, as amended from time to time. You are solely responsible for training all employees to perform duties safely and properly on behalf of the Franchised Business notwithstanding any advice or suggestions that we may provide to you from time to time with respect to employee training or safety procedures. You acknowledge and understand that we have no responsibility or duty to implement a training program for your employees or to instruct your employees about matters of safety and security in the Franchised Business. We do not assume any of your responsibilities, duties or liabilities by providing advice or suggestions regarding the appropriate method for training employees. You are also responsible for hiring, supervising, disciplining and terminating your employees, along with maintaining all employee files, determining and paying wages and other employee benefits, setting employee schedules, and providing a safe work environment for your employees.

9. EXCLUSIVE RELATIONSHIP

9.1 Exclusive Relationship.

You acknowledge that we have granted to you the right to operate the Franchised Business in consideration of and reliance upon your agreement to deal exclusively with us. You therefore agree that, during any Term of this Agreement, none of you, your owners, or any of you or your owners' spouses will:

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(a) Have any direct or indirect controlling or non-controlling interest as an owner, whether of record, beneficially, or otherwise in a Competitive Business (as defined in Section 9.2 below), wherever located or operating (other than the ownership of publicly-held securities that are traded on a stock exchange or on the over-the-counter market and which represent five percent (5%) or less of the class of securities of the issuer thereof outstanding);

(b) Perform services as a director, officer, manager, employee, consultant, representative, or agent for a Competitive Business, wherever located or operating;

(c) Divert or attempt to divert any actual or potential business or customer of the Franchised Business to a Competitive Business; or

(d) Engage in any other activity which might injure the goodwill of the Marks and the System.

9.2 Competitive Business.

The term "**Competitive Business**" means: (a) any business offering customized storage space, organizational system services and/or "do-it-yourself" storage systems (that is, storage systems fabricated according to measurements supplied by the customer and which are to be installed by the customer), or any other Products or Services authorized or offered for sale by System franchisees, whether from a retail location; (b) any retail business that engages in the sale of customized storage space and organizational system Services and/or standard or ready to assemble storage products; or (c) any business granting franchises or licenses to others to operate the type of business specified in clause (a) or (b) (other than a business operated under an agreement with us).

9.3 Confidential Information Shared with Your Personnel.

You agree to obtain similar covenants from your personnel specified by us, including officers, directors, managers and other employees attending our training programs or having access to Confidential Information (as such term is defined in Section 15.4 below).

10. MARKETING

10.1 Your Marketing Obligations.

You agree to spend annually a minimum of eight percent (8%) of Revenues for marketing (five percent (5%) on local advertising and three percent (3%) for the national marketing fund), as described more fully in Sections 10.2 and 10.3. You may utilize only advertising and marketing materials and programs approved by us in writing including, without limitation, print ads, magazines, brochures, coupons, direct mail pieces, specialty and novelty items, radio and television, web, and all other Internet and/or electronic marketing and advertising, local pages within our website, public relations or other communications, email, and other home pages or domain names on any common carrier electronic delivery system. Any proposed uses not previously approved or disseminated by us must be submitted to us for approval at least ten (10) business days prior to publication, broadcast, or use. You may also agree to participate in any promotional campaigns and advertising and other programs periodically established by us. You are not permitted to solicit customers and/or advertise outside your Marketing Area, except to the extent that you have received our prior written authorization, which we may withhold at our sole discretion. We may condition our authorization upon your agreement to offer System franchisees that are operating a Franchised Business in territories encompassed by the circulation base of the proposed advertising the opportunity to participate in, and share the expense of, such solicitation and/or advertising. You may not advertise the Franchised Business or any Products or Services offered by the Franchised Business via the Internet or any other means of e-commerce, except as permitted in Section 10.4 below.

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10.2 Local Advertising.

You agree to spend annually a minimum of five percent (5%) of Revenues for advertising and promotion of the Franchised Business ("**Local Advertising Expenditure**"). Prior to execution of this Agreement and thereafter each calendar year during the Term, you and we shall meet at least ninety (90) days prior to the end of the then-current calendar year to review and agree upon your required minimum Local Advertising Expenditure for the following calendar year. Your required Local Advertising Expenditure for the then-upcoming calendar year will be determined and mutually agreed upon based on your performance in achieving the then-current Growth Metrics. On or before December 1st of each year, you must submit to us for our review your proposed marketing plan in support of your Growth Metrics for the next calendar year. You and we will meet to review the marketing plan on a monthly and quarterly basis during the calendar year to review the plan and discuss adjustments to your Local Advertising Expenditure, if necessary.

If your Revenues exceed by more than ten percent (10%) of your Growth Metrics prior to the end of the then-current calendar year, you may request a reduction to your Local Advertising Expenditure. If your request is approved by the President of Franchising, such reduction shall remain in place until the earlier of: (i) your Revenue falls below your Growth Metrics; or (ii) the expiration of the then-current calendar year. If your Revenues fall below your Growth Metrics at any time during the then-current calendar year, you must immediately increase your Local Advertising Expenditure in such amounts and for such time as necessary to meet or exceed your Growth Metrics.

You must submit a monthly accounting to us of your Local Advertising Expenditure no later than fifteen (15) days following the end of each month. You agree that your Local Advertising Expenditure will be audited by us at the end of each calendar year and, to pay to us as a Royalty Fee the difference between your actual advertising expenditure and the Local Advertising Expenditure if the advertising expenditure actually expended by you was less than five percent (5%) of your Revenues. We have the right to establish various types of cooperative marketing programs ("**Joint Marketing Programs**") for California Closets® businesses in a particular region or marketing area. We have discretion to define the size and extent of the region. These programs may include: (1) co-marketing programs in which we and our franchisees join with suppliers, home builders, retailers, and other third parties to cross-promote Products and services; (2) local joint marketing efforts in which multiple franchisees contribute to a specific ad or event; and/or (3) local or regional marketing co-operatives ("**Marketing Co-ops**") that pool funds of franchisees on an ongoing basis to jointly promote the brand and the members' business. You must participate in any Joint Marketing Program we establish in your region or market area. If we establish a Marketing Co-op in your area, you may be required to contribute amounts for advertising or promotion within the region, as determined by the Marketing Co-op, provided the decision is approved by a majority vote at a meeting of the members. Each participating franchise will have one vote in making decisions of the Marketing Co-op, regardless of the number of franchises owned by the participant. We have the right to establish reasonable procedures for calling and conducting meetings, providing notices to the participants, and other procedural matters. Joint Marketing Programs count toward the Local Advertising Expenditure.

10.3 Marketing Fund.

We have established a national marketing fund ("**Marketing Fund**") for the common benefit of System franchisees. We require you to participate in and contribute three percent (3%) of your Revenues to the Marketing Fund on a monthly basis in the same manner as the Royalty Fee ("**Advertising Fee**").

We will use Marketing Fund contributions to develop, produce and distribute national, regional and/or local advertising and to create advertising materials and public relations programs which promote, in our sole judgment, the Products and Services offered by System franchisees. We have the sole right to determine contributions to and expenditures from the Marketing Fund, or any other advertising program, and the sole authority to determine the selection of the advertising materials and programs; provided, however, that we will make a good faith effort to expend Marketing Fund contributions in the general best interests of the System on a national or regional basis. We may use the Marketing Fund to satisfy any and

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all costs of maintaining, administering, directing, preparing, analyzing and producing advertising, including, without limitation, the cost of preparing and producing television, radio, magazine and newspaper advertising campaigns, the cost of direct mail and outdoor billboard advertising; the cost of public relations activities and advertising agencies; the cost of developing and maintaining an Internet website; and personnel and other departmental costs for advertising that we internally administer or prepare. Nevertheless, you acknowledge that not all System franchisees will benefit directly or on a pro rata basis from such expenditures. While we do not anticipate that any part of the Marketing Fund contributions will be used for advertising which is principally a solicitation for franchisees, we reserve the right to use the Marketing Fund for public relations or recognition of the California Closets® brand and include a notation in any advertisement indicating "Franchises Available." Any Marketing Fund contributions that are not spent in the year in which they are collected are carried forward for use in the next fiscal year(s).

We may periodically assist franchises to maintain high quality standards through customer surveys, customer interviews, and other similar initiatives. The cost of such programs may be borne by the Marketing Fund. The cost of these programs may be charged directly to you if your results from a survey fall below System established minimum standards for such surveys.

We have the right to reimbursement from the Marketing Fund contributions for such reasonable costs and overhead incurred by us in activities reasonably related to the direction and implementation of the Marketing Fund. We assume no direct or indirect liability or obligation to you with respect to the maintenance, direction or administration of the Marketing Fund. Where appropriate, in our reasonable judgment, we will identify you as a "*participating franchisee*" in certain advertising materials. In addition to our other remedies under this Agreement, we may withhold such identification if you fail to pay the Advertising Fee required in this Section 10.3.

We will prepare on an annual basis and will have available for you a statement of contributions and expenditures for the Marketing Fund during the last fiscal year. The Marketing Fund is not required to be independently audited.

We have the right to suspend or terminate the Marketing Fund (and to reinstate the Marketing Fund according to the provisions of this Agreement) upon thirty (30) days' notice to you or under the policies that we periodically determine and include in the Operations Manual.

10.4 Internet Marketing.

You must have and maintain adequate hardware and software to access the Internet at the bit speed we require from time to time. You are prohibited, however, from establishing another website, and you must comply with this Agreement for any other presence on the Internet.

(a) We have established a website, www.californiaclosets.com that provides information about the System and California Closets® Products and Services. We may use part of the monies from the funds we collect under this Agreement for payment or reimbursement for costs we incurred in connection with the development, maintenance and update of the website. We will be the web master directly or through a third party and have sole discretion and control over such website.

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

(c) We recommend you maintain local social media pages on Facebook®, Instagram®, YouTube® or any other social media or networking site, and that you engage in advertising on those local social channels. If you do create local social media pages, we require that you: (i) establish and operate such Internet or other site in accordance with our standards and specifications; (ii) utilize any templates we provide to you to create and/or modify such site(s); (iii) actively manage the pages so they do not become

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outdated; and (iv) respond in a timely manner to any customer messages sent to your local profile. You acknowledge that copyright protection in all works of authorship fixed by you in any tangible medium of expression in connection with your use of the System and operation of the Franchised Business vests with us at the time of creation. You hereby irrevocably assign to us all right, title and interest that you may have now or in the future in any domain name or social media or networking site (including, without limitation, identity, followers or content) that you utilize in the operation of the Franchised Business, whether the domain name or use of the site was approved by us. You shall bear the expense of any assignments to us required by this Section 10.4.

(d) All leads must be acquired through our website or web properties and not on social media sites or other internet lead forms. All leads are required to review and agree to the terms of service, privacy policy, and any other data or internet privacy policies we have on our website.

(e) You acknowledge that we are the lawful, rightful and sole owner of the Internet domain name www.californiaclosets.com and any other Internet domain names registered by us, and unconditionally disclaim any ownership interest in those or any confusingly similar Internet domain name. The Yext® subdomain, https://www.locations.californiaclosets.com, is owned and manage by Yext under our direction. You are responsible for having Yext pages created for your core markets, but are not required to have a Yext page for suburbs of your core markets. We create Yext pages for the major metro areas within your Marketing Area. You agree not to register any Internet domain name in any class or category that contains words used in or similar to any brand name owned by us or our affiliates or any abbreviation, acronym, phonetic variation or visual variation of those words.

(f) We have the right to modify the provisions of this Section 10.4 relating to Internet use as we deem necessary or appropriate in the best interests of the System.

10.5 Pre-Opening and Initial Marketing.

You must spend between Twenty-Five Thousand Dollars ($25,000) and Seventy-Five Thousand Dollars ($75,000) on Pre-Opening and Initial Marketing in your Marketing Area during the opening period of your Franchised Business ("**Pre-Opening and Initial Marketing**"). We must approve your Pre-Opening and Initial Marketing strategies. You may spend additional sums on advertising your Pre-Opening and Initial Marketing at your sole discretion, subject to Sections 10.1 through 10.4 above.

11. RECORDS, REPORTS, AND FINANCIAL STATEMENTS

11.1 Books and Records.

You agree to establish and retain a bookkeeping and recordkeeping system conforming to the Operations Manual. We may require you to provide daily customer contact, deposit, sales, contract, design and installation documentation and information, types of Products sold, bank statements, payroll records, check stubs, credit card receipts, sales tax records and returns, cash receipts and disbursements, journals and general ledgers, including any comparable electronically generated information or any other supporting records or materials as required. You agree to transmit to or permit our electronic collection of information through the Technology Platform on a frequency specified by us. Each transaction of the Franchised Business must be processed on the Technology Platform in the manner prescribed by us from time to time. We have, at all times, the right to access and retrieve sales information and other data from the Technology Platform and you agree to take such action as may be necessary to provide and maintain such access. You must preserve all books and records for not less than seven (7) years after the close of the fiscal year to which they relate and, make such books and records available at all reasonable times for our or our designated representative's inspection and verification.

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11.2 Reports and Financial Statements.

You agree to furnish us the following reports and financial statements, in the form prescribed by us from time to time and consistent with our then-current accounting practices and procedures, which reports and financial statements must be verified as correct by you in the manner prescribed by us:

(a) Concurrently with the payment of each Royalty Fee, a monthly report showing the Revenues for the immediately preceding month including, without limitation, the location and identity of customers, cost of jobs, Products and Services sold and such other information as we require from time to time;

(b) Within twenty (20) days after the end of each calendar quarter, financial statements, prepared in accordance with generally accepted accounting principles ("**GAAP**") including, without limitation, a statement of cash flow and cash-on-hand, an unaudited balance sheet as of the end of the period and an unaudited statement of profit and loss of the Franchised Business prepared on an accrual basis for such period, covering the immediately preceding reporting period. We have the right to require you to prepare reviewed or audited financial statements annually;

(c) Within ninety (90) days after the end of each fiscal year end, complete financial statements in a form prescribed by us from time to time which are prepared in accordance with GAAP, including, without limitation, balance sheets, income statements, statements of cash flow, accounts receivable, accounts payable and aging reports, and a copy of your federal, state and local tax returns or equivalent tax returns for such period and proof of payment of all such taxes. We reserve the right to require that you have reviewed or audited statements prepared;

(d) Such customer data and transaction information as we may specify from time to time in the Operations Manual or otherwise, which may include specific information relating to customer addresses and other contact information, copies of contracts, lead time for the completion of the job, cost of goods sold, labor costs, total revenue for each job, exact color and type of products sold, and designs for all jobs;

(e) If you are in default under any of the terms or conditions of this Agreement, statements submitted on a quarterly basis affirming that all federal, state, and local taxes have been paid as well as reports of all customer deposits collected to date; and

(f) Such other reports and financial information as we may from time to time require (including, by way of example and not limitation, monthly statements, periodic or regular sales and cost data and analysis, payroll registers, credit facilities statements such as bank loan and credit card statements, documentation of any other long term liabilities whether on or off the balance sheet, and personal financial statements of any persons having a material financial interest in the Franchised Business) to determine your and your owners' compliance with this Agreement or to otherwise evaluate the performance of the Franchised Business.

11.3 Ownership of Data.

You acknowledge and agree that all data you collect from former, existing and/or potential customers, including, without limitation, contracts, designs, deposit and payment information, and status information, information regarding suppliers and other vendors, including, without limitation, the identity, address, sales and other purchasing information, and/or any information collected from others in connection with the operation of the Franchised Business is owned by us. We have the right at any time to collect, possess, copy, use and access any or all portions of such data, including, without limitation, the right to survey, market to, or otherwise contact the customers.

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12. INSPECTIONS AND AUDITS

12.1 Our Right to Inspect the Franchised Business.

To determine whether you and the Franchised Business are in compliance with this Agreement, the Operations Manual and the System, we and/or our designated agents or representatives may at all times and without prior notice to you: (a) inspect the Franchised Business; (b) photograph the Franchised Business and observe and videotape the Franchised Business and its operations for such periods as we deem necessary; (c) remove samples of any Products and supplies; (d) interview the Franchised Business personnel and customers; (e) participate in a mystery shopper or other evaluation program which includes the assessment of the Franchised Business without notice to you; and (f) inspect and copy any books, records, and documents relating to the Franchised Business's operation, and/or any other entity or business that you or any owner of the Franchised Business owns, in whole or in part, or is operating during any Term, including, without limitation, downloading any information or data located on the Technology Platform. You agree to cooperate with us fully in connection with the foregoing.

12.2 Our Right to Audit.

We are entitled at any time to have the books and records of the Franchised Business and/or any of your owners, examined or audited at our expense for any period of time during which the Franchised Business has been in operation, and you and your owners must cooperate fully with the persons making such examination or audit. You must promptly pay us any underpayment disclosed by such examination or audit. We will credit your account with disclosed overpayments, if any. If any examination or audit is necessitated by your failure to submit statements of Revenues or other reports due or to maintain books and records as required by this Agreement, or if the Revenues reported for any period differ five percent (5%) or more from your actual Revenues for such period, then you must pay us the cost of such examination or audit (including, without limitation, reasonable compensation for any time necessarily expended by our employees or independent contractors and reimbursement for expenses necessarily incurred by them, such as legal and accounting fees, travel expenses, room and board and applicable per diem charges), as well as any additional amount of Royalty Fees and Marketing Fund contributions shown to be due, plus applicable interest. These remedies are in addition to our other remedies and rights under this Agreement and applicable law.

In addition, you permit us to make a final inspection of your financial records, books and other accounting records within two (2) years after the effective date of the expiration, termination, or transfer of this Agreement.

13. TRANSFER

13.1 Transfer by Us.

We have the right at any time to change our ownership or form and/or assign this Agreement and any other agreement to a third party without restriction. Upon our assignment of this Agreement to a third party, we shall no longer have any performance or other obligations under this Agreement.

13.2 Transfer by You.

Your rights and duties under this Agreement are personal to you (or, if you are a legal entity, to you and your owners). A transfer of the Franchised Business's ownership, possession, or control, or substantially all of its assets, may be made only with a transfer of this Agreement. Any transfer without our prior written approval is a breach of this Agreement and such transfer shall be void and have no effect.

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13.3 Definition of Transfer.

As used in this Agreement, the term "**Transfer**" includes a voluntary, involuntary, direct, or indirect assignment, sale, gift, or other disposition. An assignment, sale, gift, or other disposition includes, without limitation, the following events: (a) transfer of ownership of capital stock, a partnership or membership interest, or another form of ownership interest in you; (b) merger or consolidation or issuance of additional securities or other forms of ownership interest in you (if you are a legal entity); (c) any sale of a security convertible to an ownership interest in you; (d) transfer of an interest in you, this Agreement, the Franchised Business or substantially all of its assets; (e) the death of you, one of your owners, or an owner of one of your owners (if such owner is a legal entity); (f) pledge of this Agreement (to someone other than us) or the pledge of an ownership interest in you or your owners as security.

13.4 Conditions for Approval of Transfer.

If you are in full compliance with this Agreement, you may request our approval to transfer your Franchised Business. Our consent to the transfer of your Franchised Business will not be unreasonably withheld. All of the following terms and conditions must be met before or concurrent to the effective date of the transfer:

(a) We determine in our sole discretion, that the transferee has sufficient business experience, aptitude and financial resources to operate the Franchised Business, that the transferee's business model is a fit with the California Closets® brand and our System, and neither the transferee nor its owners or affiliates have a direct or indirect ownership interest in, or perform services for, a Competitive Business;

(b) You have paid all Royalty Fees, Advertising Fees, Marketing Fund contributions, and other amounts owed to us, our affiliates and third-party vendors; have submitted all required reports and statements; and have not violated any provision of this Agreement, the Lease, or any other agreement with us at any time during the period beginning on the sixtieth (60^{th}) day prior to the date on which you requested consent to the transfer and ending on the effective date of the transfer;

(c) The transferee (or its managing owner) satisfactorily completes our training program and pays our then-current training fee;

(d) To the extent required by the terms of any Lease or other agreements, the lessors or other parties must have consented to the proposed transfer;

(e) The transferee signs our then-current form of franchise agreement and related documents, the provisions of which may differ materially from any and all of those contained in this Agreement, including, without limitation, the Royalty Fee, Advertising Fee, and the Local Advertising Expenditure, and which will be for a term equal to the remainder of the Term of this Agreement or, at our election, the then-current term of a new franchise agreement;

(f) The transferee expressly assumes all outstanding advertising obligations relating to the Franchised Business, and obtains all permits and licenses necessary to operate the Franchised Business;

(g) You or the transferee pays us a transfer fee of Twenty Thousand Dollars ($20,000) per Marketing Area;

(h) You (and your transferring owners) sign a general release, in a form satisfactory to us, of any and all claims against us and our shareholders, officers, directors, employees and agents and agree to abide by your post-termination obligations under this Agreement;

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(i) If you or your owners finance any part of the purchase price, you and/or your owners agree that the transferee's obligations to repay you or your owners are subordinate to the transferee's obligation to pay Royalty Fees, Advertising Fees, Marketing Fund contributions, and other amounts due to us, our affiliates and third-party vendors;

(j) The transferee agrees to upgrade, remodel, and refurbish the Franchised Business, including, without limitation, Showrooms or Design Centers, in accordance with our then-current requirements and specifications for franchises within the time period specified by us;

(k) You have entered into a confidentiality agreement naming us as a third-party beneficiary prior to disclosing any information about the Franchised Business, System, Products or Services to any prospective transferee or any other person; and

(l) You provide us with a copy of the executed purchase agreement relating to the proposed transfer with all supporting documents and schedules, including transferee's assumption of, and agreement to faithfully perform, all of your obligations under this Agreement. We have the right to require you to provide us all information regarding the Franchised Business that you give to the transferee, and we may reject any transfer where the purchase price is so burdensome as to impair or materially threaten the transferee's ability to meet its obligations under its franchise agreement.

13.5 Transfer to a Wholly-Owned Legal Entity.

Notwithstanding the foregoing, if you are in full compliance with this Agreement, you may transfer this Agreement to a single corporation or limited liability company which conducts no business other than the Franchised Business, provided that you must maintain management control, and own and control one hundred percent (100%) of the equity and voting power of all issued and outstanding ownership interests of said corporation or limited liability company and, all of the assets are owned, and business is conducted, only by said corporation or limited liability company. The corporation or limited liability company must expressly assume all of your obligations under this Agreement. Transfers of ownership interests in the corporation or limited liability company are subject to the terms and conditions of Section 13.4 above and you agree to remain personally liable under this Agreement as if the transfer to the corporation or limited liability company did not occur.

13.6 Your Death or Disability.

(a) Upon your death or disability or, if you are a corporation, limited liability company or partnership, the death or disability of the owner of a controlling interest in you, your or such owner's executor, administrator, conservator, guardian or other personal representative must transfer your interest in this Agreement, or such owner's interest in you, to a third party. That transfer must be completed within a reasonable time but not to exceed nine (9) months from the date of death or disability, and is subject to all of the terms and conditions in this Section 13.6. Failure to transfer your interest in this Agreement or the ownership interest in you within this time period is a breach of this Agreement. The term "**disability**" means a mental or physical disability, impairment, or condition that prevents, or is reasonably expected to prevent, you or an owner of a controlling interest in you from managing and operating the Franchised Business.

(b) If upon the death or disability of you or of the owner of a controlling interest in you, the Franchised Business is not being managed by a trained managing owner or manager, your or such deceased or disabled owner's executor, administrator, conservator, guardian, or other personal representative must within a reasonable time, not to exceed fifteen (15) days from the date of death or disability, appoint a new General Manager, who shall be acceptable to us and who must complete our training program within sixty (60) days after the date of death or disability.

(c) We have the right, but not the obligation, to appoint a manager for the Franchised Business pending the appointment and training of a General Manager as provided in Subsection (b) above, or, if in our judgment the Franchised Business is not being managed properly any time after the death or

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disability of you or the owner of a controlling interest in you. All funds from the Franchised Business' operation while it is under our (or the third party's) management will be kept in a separate account, and all expenses will be charged to this account. We may charge you (in addition to the Royalty Fee, Marketing Fund contributions, and other amounts due under this Agreement) for all expenses of the Franchised Business, including, without limitation, compensation, other costs and travel and living expenses of the manager if we (or a third party) assume the Franchised Business' management under this Subsection (c). We (or a third party) will not be liable to you, your owners or the estates of you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any Products, other assets, or Services the Franchised Business purchases while managed by us (or a third party).

13.7 Effect of Consent to Transfer.

Our consent to a transfer is not a representation of the fairness of the terms of any contract between you and the transferee, a guarantee of the Franchised Business' or transferee's prospects of success, or a waiver of any claims we have, or may have against you (or your owners) or, of our right to demand the transferee's full compliance with this Agreement.

13.8 No Encumbrance.

You have no right to pledge, encumber, hypothecate or otherwise give any third party a security interest in your rights under this Agreement without our prior written permission, which we have the sole right to withhold for any reason whatsoever.

13.9 Right of First Refusal.

(a) If you or your owners seek to sell at any time an interest in this Agreement, the Franchised Business, the assets of the Franchised Business or an ownership interest in you, or if you have received a bona fide, written offer from a fully disclosed purchaser, you shall immediately deliver to us a true and complete copy of such offer (and any proposed "side" or ancillary agreements). If the offeror proposes to buy any other property or rights from you (or your owners) under a separate, contemporaneous offer, the price and terms of purchase offered to you for the interest in this Agreement, the Franchised Business, the assets of the Franchised Business or you must reflect the bona fide price offered therefor and shall not reflect the value for any other property or rights.

(b) We have the right, exercisable by written notice delivered to you or your owners within thirty (30) days from the date of delivery of such offer to us, to purchase such interest for the price and on the terms and conditions contained in such offer, provided that we may substitute cash for any form of payment proposed in such offer, our credit will be deemed equal to the credit of any proposed purchaser, and we will have not less than sixty (60) days to prepare for closing. We will be entitled to purchase such interest subject to all customary representations and warranties given by the seller of the assets of a business or voting stock of an incorporated business, as applicable, including, without limitation, representations and warranties as to ownership, condition and title to stock and/or assets, liens and encumbrances relating to the stock and/or assets, and validity of contracts and liabilities of the corporation whose stock is purchased and affecting the assets, contingent or otherwise.

(c) If we do not exercise such right of first refusal, you or your owners may complete the sale to such purchaser pursuant to and on the exact terms of such offer, subject to our approval of the transfer, as provided in Section 13.4 above; provided, however, that if the sale to such purchaser is not completed within one hundred twenty (120) days after delivery of such offer to us, or if there is a material change in the terms of the sale, we will have an additional right of first refusal for thirty (30) days on the same terms and conditions as are applicable to the initial right of first refusal.

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14. DEFAULT AND TERMINATION

14.1 Automatic Termination.

This Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

(a) You make an assignment for the benefit of creditors, file a voluntary petition in bankruptcy, are adjudicated bankrupt or insolvent, file or acquiesce in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consent to or acquiesce in the appointment of a trustee or receiver for you or the Franchised Business.

(b) If proceedings are commenced to have you adjudicated bankrupt or to seek your reorganization under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within sixty (60) days, or a trustee or receiver is appointed for you or the Franchised Business without your consent, and the appointment is not vacated within sixty (60) days.

(c) You purport to sell, transfer or otherwise dispose of any entity you create to operate the Franchised Business or any interest in the Franchised Business in violation of Section 13 above.

14.2 Termination With Notice and Without Opportunity to Cure.

We have the right to terminate this Agreement upon notice without providing you with an opportunity to cure for any of the following breaches or defaults:

(a) You or any of your principals are convicted of or plead guilty or no contest to a felony or take part in any criminal misconduct relevant to the operation of your Franchised Business.

(b) You or any of your principals commit any fraud or misrepresentation in the operation of your Franchised Business.

(c) You or any of your principals make any misrepresentation or omission in connection with your franchise application, including, without limitation, any financial misrepresentation.

(d) You fail to complete initial training set forth within the time frames set forth in this Agreement.

(e) We send you three (3) or more written notices to cure pursuant to Sections 14.3 and/or 14.4 hereof in any twelve (12) month-period.

(f) You or any of your principals materially breach any other agreement with us or any of our affiliates or your landlord, or threaten any material breach of any such agreement, including, without limitation, any Lease for any Approved Location(s), and fail to cure such breach within any permitted cure period.

(g) You or any of your employees materially violate any provisions of this Agreement pertaining to the Marks, Proprietary Material, or Confidential Information or misuse the Marks or Confidential Information.

(h) You violate any health, safety or sanitation law, ordinance or regulation or operate the Franchised Business in a manner that presents a health or safety hazard to customers, or the general public.

(i) You violate the in term restrictive covenant set forth in Section 9 above.

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(j) If a levy of writ of attachment or execution, or any other lien, is placed against you, any partnership, limited liability company or corporation you create to operate the Franchised Business, or any of your principals or any of their assets which is not released or bonded against within thirty (30) days.

(k) You or any guarantor of your obligations under this Agreement becomes insolvent.

(l) You voluntarily or otherwise abandon the Franchised Business. The term "**abandon**" includes, without limitation, any conduct which indicates a desire or intent to discontinue operating the Franchised Business in accordance with the terms of this Agreement and will apply if you fail to operate the Franchised Business as a California Closets® Franchised Business for a period of four (4) or more consecutive days without our prior written approval.

(m) You misuse or make unauthorized use of any proprietary software we develop for use in connection with the System.

(n) You fail to maintain insurance or repay us for insurance we paid for.

(o) You fail, within fifteen (15) calendar days after notification of non-compliance by federal, state or local government authorities to comply with any law or regulation applicable to the Franchised Business.

(p) If any government action is taken against you resulting in any obligation upon us which in our sole judgment is uneconomical, not in our best interests, or would result in us having an unintended relationship or obligation.

(q) If there are insufficient funds in your bank account to cover a check or EFT payment to us three (3) or more times within any twelve (12) month-period.

(r) If any audit reveals that you have understated your Royalty Fees or Advertising Fees payments by more than five percent (5%), if you have failed to make your Local Advertising Expenditures, or if you have failed to submit timely reports and/or remittances for any two (2) reporting periods within any twelve (12) month-period, as described in Section 11.2.

(s) If you conduct yourself or the Franchised Business in a manner that, although not criminal, reflects adversely on the System, the Marks, or the Products or Services offered through the System.

14.3 Termination with 15 Days' Notice and Opportunity to Cure.

This Agreement will automatically terminate if the following is not cured by you within fifteen (15) days of the date of the notice from us:

(a) You fail to pay as and when due any sums owed to us, our affiliates, or any of our System Suppliers or vendors, including, without limitation, any System franchisee providing Manufacturing Services.

(b) You fail to immediately endorse and deliver to us any payments due to us from any third parties that are erroneously made to you.

(c) You fail to commence operations of your Franchised Business within twelve (12) months from the Effective Date of this Agreement or fail to maintain the prescribed days or hours of operation at the Franchised Business.

(d) You fail to maintain quality controls reasonably required by this Agreement and/or the Operations Manual.

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(e) You fail to procure or maintain any licenses, certifications, or permits necessary for the operation of the Franchised Business.

(f) You fail to notify us of any change in your banking relationships, including, without limitation, changes to your banking institutions or account numbers, or if any portion of the Revenues of your Franchised Business is moved into a bank account not approved of by us or which is not accessible to us via EFT.

(g) You offer any unauthorized or discontinued products or services at or from the Franchised Business, including, without limitation, unauthorized Non-Residential Services.

14.4 Termination Upon 30 Days' Notice to Cure.

This Agreement will terminate automatically if you fail to cure any other breach of one or more of the terms or conditions of this Agreement or any other agreements between you and us or our affiliates within thirty (30) days after your receipt of notice from us of your breach. However, if the breach is curable, but is of a nature that cannot reasonably be cured within such thirty (30)-day cure period and you have commenced and are continuing to make good faith efforts to cure the breach, you will be given an additional reasonable period of time to cure the same and this Agreement will not terminate until the expiration of such agreed upon additional time to cure. If you fail to cure the breach within the agreed upon cure period as set forth in this Section 14.4, this Agreement will automatically terminate with no further notice required.

14.5 Remedies Other Than Termination.

If you commit any act, or any other event occurs, which constitutes grounds for termination of this Agreement by us, we have the option, but not the obligation to: (a) reduce your Marketing Area or terminate the exclusivity set forth in Section 1.1 above; (b) suspend your right to receive Leads; (c) require you to open one or more additional Showrooms or Design Centers within a reasonable time specified by us if you fail to achieve a satisfactory market share or to meet your Growth Metrics in your Marketing Area, as determined by us from to time; (d) charge a Breaching Royalty Fee; and/or (e) suspend your right to operate the Franchised Business if you fail to comply with local, state or federal health and safety requirements. Such actions will take effect immediately upon our written notice to you. If we reduce your Marketing Area, you may not thereafter open and operate the Franchised Business in the portion of your Marketing Area withdrawn from you. Our election of any of these remedies will not preclude us from invoking our right to terminate if the act or event constituting grounds for termination continues to exist.

14.6 Assumption of Management.

Upon: (a) your abandonment of, or failure to operate, the Franchised Business, including, without limitation, your inability to provide Services to customers, pay rent, meet payroll and/or purchase Products and materials required to complete pending jobs; or (b) your failure to comply with any provision of this Agreement or the Operations Manual, which failure is not cured within the time period specified by us, we have the right but not the obligation to enter your Showrooms or Design Centers, corporate offices or other locations and to assume the management of the Franchised Business (or to appoint a third party to assume its management) for any period of time we deem appropriate. If we (or a third party) assumes management of the Franchised Business under this Section 14.6, you agree to pay us (in addition to the Royalty Fee, Advertising Fee and other amounts due under this Agreement) Five Hundred Dollars ($500) per day, plus our (or the third party's) direct out-of-pocket costs and expenses, for up to sixty (60) days after we assume management. Upon our assumption of the management of the Franchised Business, you acknowledge that we (or the third party) have a duty to utilize only reasonable efforts and are not liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies, Products, or other assets or services the Franchised Business purchases, while managed by us (or the third party). The exercise by us of our rights under this Section 14.6 does not affect our right to terminate this Agreement under this Section 14. Under no circumstances shall we be deemed to be a

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successor in interest to your ownership rights in the Franchised Business pursuant to the provisions of this Section 14.6 or otherwise.

14.7 Notice Required by Law.

If any valid applicable law or regulation of a competent governmental authority having jurisdiction over the parties limits our right of termination or requires longer notice periods than those set forth above, this Agreement will be deemed amended to conform to such minimum notice periods or restrictions. We will not, however, be precluded from contesting the validity or application of such laws in any action, arbitration, hearing or dispute relating to this Agreement or its termination.

14.8 Equitable Relief.

You acknowledge that neither termination of this Agreement nor an action at law would be an adequate remedy for a breach by you relating to the Marks or our Confidential Information, Proprietary Material, trade secrets or your obligations arising upon and after termination of this Agreement. In the event of such breach we will be entitled to relief in equity to restrain the continuation of any such breach or to compel compliance with this Agreement.

15. OBLIGATIONS AND RIGHTS UPON EXPIRATION OR TERMINATION

15.1 Orders for Materials/Products.

We will not be obligated after the expiration or termination of this Agreement to fill, or ship, or to cause to be filled or shipped, any orders for materials or Products received from you prior to or after such termination or expiration.

15.2 Payment of Amounts Owed to Us.

You agree to pay us within fifteen (15) days after this Agreement expires or is terminated the Royalty Fee, Advertising Fee, Marketing Fund contributions, interest, and all other amounts owed to us (and our affiliates), including, without limitation, payment for orders placed by you with us or our affiliates for materials, supplies or accessories, or services whether such orders have been processed, are in transit or have been received by you.

15.3 Marks.

Upon the termination or expiration of this Agreement for any reason whatsoever:

(a) Neither you nor your officers, directors, or owners may, directly or indirectly, at any time, or in any manner (except with other California Closets® franchised businesses owned and operated by you) identify yourselves as a current or former California Closets® business or as one of our current or former franchise owners; use any Mark, any colorable imitation of a Mark, or other indicia of a California Closets® business in any manner or for any purpose; or use for any purpose any trade name, trade or service mark, or other commercial symbol that indicates or suggests a connection or association with us;

(b) You agree to take the action required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark;

(c) You agree to deliver to us within thirty (30) days, all signs, sign-faces, sign-cabinets, marketing materials, forms, printed matter, promotional displays, stationery, letterheads, advertising and other materials containing any Mark or otherwise identifying or relating to a California Closets® business and allow us, without liability to you or third parties for trespass or any other

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claim, to enter the Approved Location(s) or other facility and remove such items from the Franchised Business;

(d) You agree promptly and at your sole expense to make the alterations as specified in the Operations Manual (or otherwise) to distinguish the Franchised Business clearly from its former appearance and from other California Closets® businesses to prevent public confusion;

(e) You agree to notify the telephone company and all telephone directory publishers of the termination or expiration of your right to use any telephone, facsimile, or other numbers and telephone directory listings associated with any Mark; to authorize the transfer of these numbers and directory listings to us or at our direction; and/or to instruct the telephone company to forward all calls made to your numbers to numbers specified by us, and, if you fail to do so, we may take whatever action and sign whatever documents we deem appropriate on your behalf to effect these events;

(f) You agree to immediately and permanently discontinue all advertising placed while you were an authorized franchisee of ours or which contains or makes reference to any of the Marks or other things the use of which is prohibited by Subsection (c) above, and cancel all such advertising already placed or contracted for which would otherwise be published, broadcast, displayed, or disseminated after the date of termination or expiration;

(g) You agree to deliver to us, within thirty (30) days after the expiration or termination of this Agreement, evidence satisfactory to us of your compliance with these obligations; and

(h) You agree to transfer all domain names relating to any of the Marks to us.

15.4 Confidential Information.

You agree that, when this Agreement is terminated for any reason (including expiration), you will immediately cease using any of our Confidential Information (including, without limitation, the Technology Platform, computer software or similar technology and digital passwords and identifications that we have licensed to you or that otherwise is proprietary to us or the System) in any business or otherwise and return to us all copies of the Operations Manual, customer data, including all files and information relating to former, existing and potential customers such as contact information, contracts, designs and job status, customer lists, and other information that we may have loaned to you. As used in this Agreement, the term "**Confidential Information**" includes all proprietary rights, trade secrets and other confidential information relating to the System, the operation of California Closets® businesses, and all information relating to the System now or hereafter revealed to you by us or by others on our behalf, including, without limitation, all information set forth in the Operations Manual. During and after the Term of this Agreement, you will maintain the absolute confidentiality of the Confidential Information.

15.5 Covenant Not to Compete.

You and your owners agree that for a two (2) year-period beginning on any of the following dates as may be applicable:

(a) the effective date of termination of this Agreement according to its terms and conditions,

(b) the effective date of the expiration of this Agreement,

(c) the effective date of any transfer made pursuant to Section 13 hereof, or

(d) the effective date of any of your owners ceasing to hold any interest in you;

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neither you nor any of your owners will have any direct or indirect interest (for example, through a spouse) as an owner (whether of record, beneficially, or otherwise), investor, partner, director, officer, employee, consultant, representative, or agent in any Competitive Business which offers or sells or licenses the offer or sale of Products and Services offered or authorized for sale by System franchisees at the time this Agreement is terminated:

(a) within your Marketing Area; or

(b) within the marketing area of any then-operating California Closets® franchised or company-owned business.

If any person restricted by this Section 15.5 breaches any of the covenants set forth in this Section 15.5, the running of the period described in this Section 15.5 (but not such person's obligations) shall be tolled for so long as such breach continues. You and your owners expressly acknowledge that each possesses skills and abilities of a general nature and has other opportunities for exploiting these skills. Consequently, our enforcement of the covenants made in this Section 15.5 will not deprive you or your owners of personal goodwill or ability to earn a living.

15.6 Continuing Obligations.

All obligations of the parties which expressly or by their nature survive this Agreement's expiration or termination will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement and until such obligations are satisfied in full or by their nature expire.

15.7 Manufacturing Equipment Right of First Refusal.

Upon the termination or expiration of this Agreement, we or our designee will have the right, but not the obligation, to purchase the Manufacturing Equipment by providing you written notice of our election within thirty (30) calendar days after such termination or expiration and paying you the fair market value for such personal property within ninety (90) calendar days after the date of such notice. For purposes of this paragraph, “fair market value” means the value determined after an analysis of the Manufacturing Equipment completed by an independent party chosen by us to value the Manufacturing Equipment. Notwithstanding the foregoing, to the extent that we exercise our right to purchase any Manufacturing Equipment that is subject to a lease or finance agreement, the purchase price of such Manufacturing Equipment will equal the greater of: (i) the amount of your remaining obligations under the lease or finance agreement, as applicable; or (ii) the fair market value. We will be entitled to offset the purchase price by the amount of money you owe us for any payments necessary to acquire clear title to property or for any other debt. You are required to maintain in force all insurance policies required under the Franchise Agreement until the date of closing. We have the unrestricted right to assign this right of first refusal to purchase the Manufacturing Equipment. We will be entitled to all customary warranties and representations in connection with purchasing your Manufacturing Equipment, including, without limitation, representations and warranties as to ownership and condition of and title to the Manufacturing Equipment; liens and encumbrances on the Manufacturing Equipment; the validity of contracts and agreements; and liabilities affecting the property, contingent or otherwise. We may exclude from the Manufacturing Equipment purchased pursuant to this Section 15.7 any equipment, signs, inventory, materials and supplies that are not reasonably necessary (in function or quality) to the provision of Manufacturing Services or that do not meet our then-current standards for Manufacturing Equipment.

16. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION

16.1 Independent Contractors.

You and we understand and agree that this Agreement does not create a fiduciary or employment relationship between you, any of your employees, and us, that you and we are and will be independent contractors, and that nothing in this Agreement is intended to make either you or us a general or special

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agent, joint venturer, partner, or employee of the other for any purpose. You agree to identify yourself conspicuously in all dealings with customers, suppliers, public officials, personnel of the Franchised Business and others as the Franchised Business's owner under a franchise granted by us and to place notices of independent ownership on the forms, business cards, stationery, advertising, and other materials as required by us from time to time. Neither this Agreement, nor our course of conduct, is intended, nor may anything in this Agreement (nor our course of conduct), be construed to state or imply that we are the employer of your employees and/or independent contractors.

16.2 No Liability for Acts of Other Party.

Neither party may make any express or implied agreements, warranties, guarantees, or representations, or incur any debt, in the name or on behalf the other. We will not be obligated for any damages to any person or property directly or indirectly arising out of your operation of the Franchised Business.

16.3 Indemnification.

You and your principals agree to indemnify, defend and hold us and our affiliates and their respective shareholders, directors, officers, employees, agents, successors and assignees ("**Indemnitees**") harmless against and to reimburse them for all claims, obligations, liabilities and damages ("**Claims**"), including, without limitation, any and all taxes, directly or indirectly arising out of, in whole or in part: (a) your operation of the Franchised Business, including, without limitation, the provision of any authorized or unauthorized products or services and the use, condition, or construction, equipping, decorating, maintenance or operation of the Approved Location(s), and your advertising practices; (b) the use of the Marks and other Proprietary Material; (c) any transfer; (d) your or your principals' infringement, alleged infringement, or any other violation or alleged violation of any patent, trademark or copyright or other proprietary right owned or controlled by third parties; or (e) your or your principals' libel, slander or any other form of defamation of us, the System or any franchisee or developer operating under the System. For purposes of this indemnification, "Claims" will mean and include, without limitation, all obligations, actual, consequential, punitive and other damages, and costs reasonably incurred in the defense of any action, including, without limitation, reasonable attorneys', attorney assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether such Claims exceed the amount of insurance coverage available. We will have the right to defend any such Claims against it in such manner as we deem appropriate or desirable in our sole discretion. Such an undertaking by us will, in no manner or form, diminish your and your principals' obligation to indemnify the Indemnitees and to hold them harmless. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

16.4 Guaranty.

In the event you are, or at any time during the Term of this Agreement become, a corporation, limited liability company or general or limited partnership, each of your owners and their respective spouses must sign the Guaranty and Assumption of Your Obligations attached as Exhibit D to and incorporated by reference in this Agreement, undertaking personally to be bound, jointly and severally, by all provisions of this Agreement and any ancillary agreements between you and us.

17. GENERAL PROVISIONS

17.1 Severability and Substitution of Valid Provisions.

Unless expressly provided to the contrary in this Agreement, each Section, paragraph, term, and provision of this Agreement is severable, and if, for any reason, any part is held to be invalid or contrary to or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency, or tribunal with competent jurisdiction, that ruling will not impair the operation of, or otherwise affect, any other portions of this Agreement, which will continue to have full force and effect and

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bind the parties. If any covenant which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, and/or length of time, but would be enforceable if modified, the parties hereto agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law determines the covenant's validity. If any provision of this Agreement is invalid, unenforceable, or unlawful, we may modify the invalid or unenforceable provision to the extent required to be valid and enforceable or delete the unlawful provision in its entirety. You agree to be bound by any promise or covenant imposing the maximum duty the law permits which is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement.

17.2 Waiver of Obligations.

Either party may by written instrument unilaterally waive or reduce any obligation of, or restriction upon, the other under this Agreement, effective upon delivery of written notice to the other or another effective date stated in the notice of waiver. Any waiver granted will be without prejudice to any other rights that we or you may have, will be subject to continuing review, and may be revoked at any time and for any reason effective upon delivery of ten (10) days' prior written notice. Neither party will waive or impair any right, power, or option this Agreement reserves (including, without limitation, our right to demand exact compliance with every term, condition, and covenant or to declare any breach to be a default and to terminate this Agreement before the Term expires) because of any custom or practice at variance with this Agreement's terms; either parties' failure, refusal, or neglect to exercise any right under this Agreement or failure to insist upon the other's compliance with this Agreement or the Operations Manual; our waiver of, or failure to, exercise any right, power, or option, whether of the same, similar, or different nature, with other franchisees or franchised businesses of California Closets®; the existence of franchise agreements for other franchisees or franchised businesses of California Closets® which contain provisions different from those contained in this Agreement; or our acceptance of any payments due from you after any breach of this Agreement. No special or restrictive legend or endorsement on any check or similar item given to us will be a waiver, compromise, settlement, or accord and satisfaction. We are authorized to remove any such legend or endorsement, which then will have no effect.

17.3 Costs and Attorneys' Fees.

If you are in breach or default of any monetary or non-monetary material obligation under this Agreement or any related agreement between you and us and/or our affiliates, and we engage an attorney to enforce our rights (regardless of whether formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and litigation expenses we incur. If you institute any legal action to interpret or enforce the terms of this Agreement, and your claim in such action is denied or the action is dismissed, we are entitled to recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

17.4 Rights of Parties are Cumulative.

The parties' rights under this Agreement are cumulative, and either party's exercise or enforcement of any right or remedy under this Agreement will not preclude the other party's exercise or enforcement of any other right or remedy which they may be entitled by law to enforce.

17.5 Governing Law.

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Section 1051 et seq.), or other federal law, this Agreement, the franchise and the relationship between the parties hereto, shall be governed by and construed in accordance with the laws of the state in which the Franchised Business is located.

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17.6 Dispute Resolution Procedures.

(a) You must first bring any claim or dispute between you and us to our President and/or Chief Executive Officer, after providing us with notice and a sixty (60) day opportunity to cure any alleged breach before you bring your dispute before a third party. This agreement to first attempt resolution of disputes internally will survive termination or expiration of this Agreement.

(b) At our option, all claims or disputes between us and you or your affiliates arising out of, or in any way relating to, this Agreement or any other agreement by and between us and you or your affiliates, or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure sent forth in Section 17.6(a) above, must be submitted first to mediation, in Phoenix, Arizona under the auspices of the American Arbitration Association ("**AAA**"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against us or our affiliates with respect to any such claim or dispute, you must submit a notice to us, which specifies, in detail, the precise nature and grounds of such claim or dispute. We will have a period of thirty (30) days following receipt of such notice within which to notify you as to whether we or our affiliates elect to exercise the option to submit such claim or dispute to mediation. You may not commence any action against us or our affiliates with respect to any such claim or dispute in any court unless we fail to exercise our option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by us. Our rights to mediation, as set forth herein, may be specifically enforced by us. Each party will bear its own cost of mediation and you and us will share mediation costs equally. This agreement to mediate will survive any termination or expiration of this Agreement. The parties will not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 17.6 if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating): (i) any federally protected intellectual property rights in the Marks, the System, Proprietary Material, or in any Confidential Information; (ii) any claims pertaining to or arising out of any warranty issue; or (iii) any of the restrictive covenants contained in this Agreement.

(c) Nothing contained in this Agreement will prevent us from applying to and obtaining from any court having jurisdiction a writ of attachment, a temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect our interests. The parties expressly agree to the jurisdiction and venue of any court of general jurisdiction in Maricopa County, Arizona and the jurisdiction and venue of the United States District Court for the District of Arizona in Maricopa County. You acknowledge that this Agreement has been entered into in the State of Arizona, and that you are to receive valuable and continuing services emanating from our headquarters in Arizona, including but not limited to training, assistance, support and the development of the Franchised Business. In recognition of such services and their origin, you hereby irrevocably consent to the personal jurisdiction of the state and federal courts of Maricopa County, Arizona set forth above. The parties agree that all proceedings, whether litigation or mediation, will be conducted on an individual, not a class-wide basis, and that any proceeding between you and your principals and guarantors and us or our affiliates or employees may not be consolidated with any other proceeding between us and any other person or entity.

17.7 Third-Party Beneficiaries.

Our officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the mediation provision set forth in Section 17.6 above, each having authority to specifically enforce the right to mediate claims asserted against such person(s) by you.

17.8 Binding Effect.

This Agreement is not effective until accepted by us, as evidenced by dating and signing by our officer or other duly authorized representative. This Agreement is binding upon the parties hereto and their respective executors, administrators, heirs, beneficiaries, permitted assigns, and successors in interest.

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17.9 Limitations of Claims.

Any and all claims you may have against us arising out of or relating to this Agreement or our relationship with you will be barred unless you commence a judicial proceeding within two (2) years from the date on which you knew or should have known of the facts giving rise to the claim.

17.10 Construction; Definitions.

(a) Any policies we adopt and implement from time to time to guide us in decision-making are subject to change, are not a part of this Agreement, and are not binding on us. Except as expressly otherwise provided in this Agreement, nothing in this Agreement is intended or deemed to confer any rights or remedies upon any person or legal entity not a party to this Agreement. We have the absolute right to refuse any request you make, or to withhold our approval of any of your proposed, initiated, or completed actions that require our approval. The headings of the Sections and paragraphs are for convenience only and do not define, limit, or construe the contents of these Sections or paragraphs.

(b) If two or more persons are at any time the owners of the Franchised Business, whether as partners or joint venturers, their obligations and liabilities to us will be joint and several.

(c) Unless otherwise specified, all references to a number of days shall mean calendar days and not business days.

(d) References in this Agreement to:

(i) the terms "**We**," "**us**" or "**Our**", (whether written in upper or lower case) with respect to all of California Closet Company, Inc.'s rights and all of your obligations to us under this Agreement, includes any of our affiliates with whom you transact business in any manner.

(ii) "**affiliate**" means any person or entity directly or indirectly owned or controlled by, under common control with, or owning or controlling you or us.

(iii) "**control**" means the power to direct or cause the direction of management and policies.

(iv) "**owner**" means any person or entity holding a direct or indirect ownership interest (whether of record, beneficially, or otherwise) or voting rights in you (or a transferee of this Agreement and the Franchised Business or an ownership interest in you), including, without limitation, any person who has a direct or indirect interest in you (or a transferee), this Agreement or the Franchised Business, and any person who has any other legal or equitable interest, or the power to vest in himself or herself any legal or equitable interest, in their revenue, profits, rights, or assets.

(v) "**controlling ownership interest**" means the percent of the voting shares or other voting rights that result from dividing one hundred percent (100%) of the ownership interests by the number of owners. In the case of a proposed transfer of an ownership interest in you or one of your owners, the determination of whether a controlling ownership interest is involved must be made as of both immediately before and immediately after the proposed transfer to determine if a controlling ownership interest will be transferred (because of the number of owners before the proposed transfer) or will be deemed to have been transferred (because of the number of owners after the proposed transfer).

(vi) "**person**" means any natural person, corporation, limited liability company, general or limited partnership, unincorporated association, cooperative, or other legal or functional entity.

(vii) "**Franchised Business**" includes all of the assets of the business operated by you under this Agreement, including, without limitation, the Franchised Business's Revenue,

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equipment, supplies, inventory, contracts, deposits, real and personal property and any Leases for any manufacturing facility, Showroom or Design Center or other facility.

17.11 Counterparts.

This Agreement may be executed in multiple counterparts, each of which will be deemed an original and all of which together shall constitute a single, original, binding Agreement.

17.12 Notices and Payments.

All written notices, reports, and payments permitted or required to be delivered by this Agreement or the Operations Manual will be deemed to be delivered:

(a) at the time delivered by hand;

(b) at the time delivered via computer transmission and, in the case of the Royalty Fee, Advertising Fees, Marketing Fund contributions, and other amounts due, at the time we actually receive payment via EFT;

(c) one (1) business day after being placed in the hands of a nationally recognized commercial courier service for next business day delivery; or

(d) five (5) business days after placement in the United States Mail by registered or certified mail, return receipt requested, postage prepaid.

Any notice to us must be sent to California Closet Company, Inc., Attn: General Counsel, 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023, or such other address we may designate in writing from time to time. Any notice that we send to you will be sent only to the one (1) person identified in Exhibit A, even if you have multiple owners, at the email or postal address specified in Exhibit A. You may change the person and/or address for notice only by giving us at least thirty (30) days' prior notice by any of the means specified in Subsections (a) through (d) above.

Any required payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least two (2) days before the date due) will be deemed delinquent.

17.13 Entire Agreement.

This Agreement, which includes all exhibits attached hereto, any and all amendments, and the Operations Manual, contains the entire agreement of the parties with respect to the subject matter contained in this Agreement and supersedes all prior and contemporaneous communications, whether written or oral, between the parties concerning the subject matter of this Agreement, and is binding upon the parties and their respective executors, administrators, heirs, beneficiaries, permitted assigns and successors in interest. Except for our modifications to the Operations Manual, neither this Agreement nor the relationship between the parties may be modified during the Term unless such modifications are set forth in writing and signed by both parties. Nothing in this Agreement or in any related agreement is intended to disclaim any representations we made in the Franchise Disclosure Document that was furnished to you by us.

17.14 Waiver of Punitive Damages and Jury Trial.

EXCEPT FOR YOUR OBLIGATION TO INDEMNIFY US FOR THIRD PARTY CLAIMS UNDER SECTION 16.3, AND EXCEPT FOR PUNITIVE DAMAGES AVAILABLE TO EITHER PARTY UNDER FEDERAL LAW, THE PARTIES (AND YOUR OWNERS) WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY AND ALL RIGHTS TO, OR CLAIM FOR, ANY PUNITIVE OR EXEMPLARY DAMAGES

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AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN THE PARTIES, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.

THE PARTIES EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER PARTY HERETO.

YOU WAIVE THE RIGHT TO OBTAIN ANY REMEDY BASED ON ALLEGED FRAUD, MISREPRESENTATION, OR DECEIT BY US, INCLUDING, WITHOUT LIMITATION, RESCISSION OF THIS AGREEMENT, IN ANY JUDICIAL OR OTHER ADJUDICATORY PROCEEDING ARISING HEREUNDER, EXCEPT PURSUANT TO ANY RIGHT EXPRESSLY GRANTED BY AN APPLICABLE STATUTE EXPRESSLY REGULATING THE SALE OF FRANCHISES, OR ANY REGULATION OR RULES PROMULGATED THEREUNDER.

17.15 Trademarks.

All trademarks referenced in this Agreement are the property of their respective owners.

18. YOUR ACKNOWLEDGEMENTS

18.1 Intentionally omitted.

18.2 Intentionally omitted.

18.3 No Right to Offset.

You are prohibited from withholding all or any part of any payment to our or any of our affiliates on the grounds of our alleged nonperformance or as an offset against any amount we or any of our affiliates allegedly may owe you under this Agreement or any related agreements.

18.4 Force Majeure.

Neither you, us, or our affiliates will be liable for loss or damage or deemed to be in breach of this Agreement or any related agreement if its failure to perform its obligations is not the fault nor within the reasonable control of the person due to perform but results from, without limitation, fire, flood, natural disasters, acts of God, pandemics, material supply-chain shortages, acts of war or terrorism, governmental acts or orders, or civil disorders. Any delay resulting from any such cause will extend the time of performance for the period of such delay or for such other reasonable period of time as the parties agree in writing or will excuse performance, in whole or in part, as we deem reasonable.

18.5 Compliance with All Anti-Terrorist Laws.

You certify that neither you, nor your owners, principals, employees or anyone associated with you are listed in the Annex to Executive Order 13224. You agree not to hire or have any dealings with a person listed in the Annex. You certify that you have no knowledge or information that, if generally known, would result in you, your owners, principals, employees, or anyone associated with you being listed in the Annex to Executive Order 13224. You agree to comply with and/or assist us to the fullest extent possible in our efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, you certify, represent, and warrant that none of your property or interests are subject to being "**blocked**" under any of the Anti-Terrorism Laws and that you and your owners or principals are not otherwise in violation of any of the Anti-Terrorism Laws. You are solely responsible for ascertaining what actions you must take to comply with all such Anti-Terrorism Laws, and you specifically acknowledge and agree that your indemnification responsibilities as provided in Section 16.3 of this Agreement pertain to your obligations under this Section 18.5. Any misrepresentation by you under this Section or any violation of the Anti-Terrorism Laws by you, your owners, principals or employees will constitute grounds for immediate

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termination of this Agreement and any other agreement you have entered into with us or one of our affiliates. As used herein, "**Anti-Terrorism Laws**" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies lists and any other requirements of any Governmental Authority (including without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

18.6 No Personal Liability.

You acknowledge that our fulfillment of any and all of our obligations or promises under this Agreement or otherwise shall be the sole responsibility of California Closet Company, Inc. and no agent, representative or individual associated with us shall be held personally responsible.

18.7 Intentionally omitted.

18.8 No Authority.

NO SALESPERSON, REPRESENTATIVE OR OTHER PERSON HAS THE AUTHORITY TO BIND OR OBLIGATE US EXCEPT AN OFFICER AUTHORIZED BY A WRITTEN DOCUMENT.

18.9 Intentionally omitted.

18.10 Authority to Execute Agreements.

EACH OF THE UNDERSIGNED PARTIES WARRANTS THAT IT HAS THE FULL AUTHORITY TO SIGN AND EXECUTE THIS AGREEMENT. IF YOU ARE A PARTNERSHIP OR CORPORATION, THE PERSON EXECUTING THIS AGREEMENT ON BEHALF OF SUCH PARTNERSHIP OR CORPORATION WARRANTS TO US, BOTH INDIVIDUALLY AND IN YOUR CAPACITY AS PARTNER OR OFFICER, THAT ALL OF THE PARTNERS OF THE PARTNERSHIP OR ALL OF THE SHAREHOLDERS OF THE CORPORATION, AS APPLICABLE, HAVE READ AND APPROVED THIS AGREEMENT, INCLUDING ANY RESTRICTIONS WHICH THIS AGREEMENT PLACES UPON RIGHTS TO TRANSFER THEIR INTEREST IN THE PARTNERSHIP OR CORPORATION.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK – SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties have executed and delivered this Franchise Agreement as of the Effective Date.

CALIFORNIA CLOSET COMPANY, INC.

By: _____

Name: _____

Title: _____

_____

By: _____

Name: _____

Title: _____

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EXHIBIT A
OWNERS, GENERAL MANAGER AND SHOWROOM OR DESIGN CENTER LOCATIONS

1. **Corporation, Limited Liability Company, or Partnership.** You were incorporated or formed on _____, under the laws of the State of _____. The following is a list of the current directors/managers, if applicable, and officers:

Name of Each Director/Manager/Officer	Position(s) Held
_____	_____
_____	_____
_____	_____

2. **Your Owner(s)**. The following list includes the full name of each person who is one of your owners (as defined in the Franchise Agreement), or an owner of one of your owners, and fully describes the nature of each owner's interest (attach additional pages if necessary).

Owner's Name	Percentage/Description of Interest
_____	_____
_____	_____
_____	_____

3. **Name and Address of Person to Receive Notice for Franchise Owner**.

(a) Name: _____

(b) Street Address: _____

(c) E-mail Address: _____

4. **Identification of General Manager**. Your General Manager as of the Effective Date is _____. You may not change the General Manager without our prior written approval.

5. **Manufacturing Location**: _____

6. **Showroom or Design Center Locations**: _____

_____

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EXHIBIT B
MARKETING AREA

Your Marketing Area is comprised of the below zip codes and collectively referred to as _____, _____. If any zip code listed on the below chart is divided into two (2) or more zip codes by the USPS or any governmental agency having competent jurisdiction, the additional zip codes will automatically be included as part of the Marketing Area without the need for further amendment to this Agreement.

Zip Code	State	County	City

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EXHIBIT C
TELEPHONE NUMBER ASSIGNMENT AGREEMENT AND POWER OF ATTORNEY

FOR VALUE RECEIVED, the undersigned _____, doing business at _____ (**You**" or "**Assignor**"), in exchange for valuable consideration provided by California Closet Company, Inc. ("**We**," "**us**" or "**Our**" whether written in upper or lower case), the receipt of which is hereby acknowledged, hereby:

1. Conditionally assign to us all current and future telephone numbers, cell phone numbers, fax numbers, and all listings including, but not limited to telephone book, Google®, Yahoo!®, Bing®, and Yelp® listings utilized by you in the operation of the Franchised Business at your above-referenced address.

2. This conditional agreement will become effective automatically upon termination or expiration of Assignor's franchise agreement for any reason.

3. Agree to pay all obligations incurred pertaining to the use of the telephone numbers. Upon the termination or expiration of the Franchise Agreement, you agree to immediately pay all amounts owed in connection with the telephone numbers, regardless of whether yet due, including all sums owed under existing contracts for telephone directory advertising and to immediately execute any documents, pay all monies, and take any other action as may be necessary to transfer the telephone numbers to us.

4. Appoint us as your attorney-in-fact to act in your place for the purpose of assigning any telephone number covered by Paragraph 3 above to us or our designees or transferees. You grant us full authority to act in any manner proper or necessary to the exercise of the foregoing powers, including full power of substitution and execution or completion of any document required or requested by any telephone company to transfer such numbers, and ratify every act that we may lawfully perform in exercising those powers. This power of attorney shall be effective for a period of three (3) years from the date of expiration, cancellation or termination of your rights under the Franchise Agreement for any reason. You intend that this power of attorney be coupled with an interest. You declare this power of attorney to be irrevocable and renounce all right to revoke it or to appoint another person to perform the acts referred to in this instrument. This power of attorney shall not be affected by your subsequent incapacity. This power is created to secure performance of a duty to us and is for consideration.

5. All trademarks referenced in this Telephone Number Assignment Agreement and Power of Attorney are the property of their respective owners.

YOU:	**OWNERS:**
_____ [print name of your entity]	_____ Owner's Signature
By:_____ [signature of person signing on behalf of entity]	Print Name:_____
Print Name: _____	_____ Owner's Signature
Title: _____	Print Name:_____

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EXHIBIT D
GUARANTY AND ASSUMPTION OF YOUR OBLIGATIONS

This **GUARANTY AND ASSUMPTION OF YOUR OBLIGATIONS** ("**Guaranty**") is given this _____ day of_____, 2023.

By (list each guarantor):

_____
_____
_____

In consideration of, and as an inducement to the execution of that certain Franchise Agreement ("**Franchise Agreement**") on this date by **CALIFORNIA CLOSET COMPANY, INC.** ("**We**", "**us**" or "**Our**" whether written in upper or lower case), each of the undersigned personally and unconditionally (a) guarantees to us and our successors and assigns, for the term of the Franchise Agreement (including extensions) and afterward as provided in the Franchise Agreement, that _____ ("**Franchisee**") will punctually pay and perform each and every undertaking, agreement, and covenant set forth in the Franchise Agreement (including any amendments or modifications of the Franchise Agreement) and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Franchise Agreement (including any amendments or modifications of the Franchise Agreement), both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including the non-competition, confidentiality, transfer, and dispute resolution requirements.

Each of the undersigned consents and agrees that: (1) the undersigned's direct and immediate liability under this Guaranty will be joint and several, both with Franchisee and among other guarantors; (2) the undersigned will render any payment or performance required under the Franchise Agreement upon demand if Franchisee fails or refuses punctually to do so; (3) this liability will not be contingent or conditioned upon our pursuit of any remedies against Franchisee or any other person; (4) this liability will not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which we 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 (including the release of other guarantors), none of which will in any way modify or amend this Guaranty, which will be continuing and irrevocable during the term of the Franchise Agreement (including extensions), for so long as any performance is or might be owed under the Franchise Agreement by Franchisee or its owners, and for so long as we have any cause of action against Franchisee or its owners; and (5) this Guaranty will continue in full force and effect for (and as to) any extension or modification of the Franchise Agreement and despite the transfer of any interest in the Franchise Agreement or Franchisee, and each of the undersigned waives notice of any and all renewals, extensions, modifications, amendments, or transfers.

Each of the undersigned waives: (1) all rights to payments and claims for reimbursement or subrogation which any of the undersigned may have against Franchisee arising as a result of the undersigned's execution of and performance under this Guaranty; and (2) acceptance and notice of acceptance by us of the undersigned's undertakings under this Guaranty, notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed, and any other notices to which the undersigned may be entitled.

If we are required to enforce this Guaranty in a judicial or arbitration proceeding, and prevail in such proceeding, we will be entitled to reimbursement of our costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants', arbitrators', and expert witness

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fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether incurred prior to, in preparation for, or in contemplation of the filing of any such proceeding. If we are required to engage legal counsel in connection with any failure by the undersigned to comply with this Guaranty, the undersigned shall reimburse us for any of the above listed costs and expenses incurred by us.

Each of the undersigned agrees that all actions arising out of or related to this Guaranty or the Franchise Agreement, or otherwise as a result of the relationship between us and the undersigned, must be commenced in the state or federal court of general jurisdiction in Phoenix, Arizona, and each of the undersigned irrevocably submits to the jurisdiction of those courts and waives any objection the undersigned might have to either the jurisdiction of or venue in those courts. Nonetheless, each of the undersigned agrees that we may enforce this Guaranty and any orders and awards in the courts of the state or states in which the undersigned is domiciled.

IN WITNESS WHEREOF, each of the undersigned has affixed his or her signature on the same day and year as the Franchise Agreement was executed.

Signature of Each Guarantor:

[NAME]	[NAME, SPOUSE OF ___]
[NAME]	[NAME, SPOUSE OF ___]
[NAME]	[NAME, SPOUSE OF ___]

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EXHIBIT E
SITE SELECTION ADDENDUM

CALIFORNIA CLOSET COMPANY, INC. ("**We**", "**us**" or "**Our**" whether written in upper or lower case) and _____ ("**You**" or "**Your**" whether written in upper or lower case), have this ___ day of _____, 2023, entered into a Franchise Agreement for the operation of California Closets® Franchised Business ("**Franchised Agreement**") and desire to supplement its terms, as set forth below. You and We may be referred to individually as a "**party**" and collectively as the "**parties**." All capitalized terms not otherwise defined in this Site Selection Addendum shall have the same meanings as ascribed to such terms in the Franchise Agreement. The parties therefore agree as follows:

1. Within sixty (60) days after you receive notice of approval of the Franchise Agreement, you must obtain a site, at your expense, for the Franchised Business, which site we will approve as hereinafter provided. The site must be in the following Marketing Area: _____.

2. Your failure to obtain a site for the Franchised Business within the time required in Paragraph 1 will constitute a default under the Franchise Agreement and this Site Selection Addendum. Time is of the essence.

3. Prior to your acquisition by Lease or purchase of a site for the Franchised Business, you must submit to us, in the form we specify, a completed site review form, such other information or materials as we may reasonably require, and a letter of intent or other evidence satisfactory to us which confirms your favorable prospects for obtaining the proposed site. Recognizing that time is of the essence, you must submit a proposed site, together with the information and materials required by this Paragraph 3, to us for our approval within thirty (30) days after execution of this Site Selection Addendum. We will have fifteen (15) days after receipt of such information and materials from you to approve or disapprove, in our sole discretion, the site as a location for the Franchised Business. No proposed site will be deemed approved unless we have expressly approved it in writing.

4. We will furnish to you such site selection guidelines, consultation and on-site evaluation as we deem advisable as part of our evaluation of your request for site approval. We will not, however, provide on-site evaluation for any proposed site prior to our receipt of the information and materials required by Paragraph 3 hereof. If we deem on-site evaluation necessary and appropriate, we will conduct up to one (1) on-site evaluation at our cost. For each additional on-site evaluation (if any), you will reimburse us for our reasonable expenses if we ask.

5. If you will be occupying the Approved Location(s) under a Lease, you must, prior to the execution of the Lease, submit the Lease to us for our written approval. Our approval of the Lease will be conditioned upon your execution of a Collateral Assignment of Lease in the form we prescribe and the inclusion of the following terms and conditions:

(a) That the initial term of the Lease, or the initial term together with renewal terms, will be for not less than ten (10) years with the option to renew the Lease for one additional ten (10) year term;

(b) That the lessor consents to your use of such Marks and initial signage as we may prescribe for the Franchised Business;

(c) That the use of the Approved Location(s) be restricted solely to the operation of the Franchised Business;

(d) That you be prohibited from subleasing or assigning all or any part of your occupancy rights or extending the term of or renewing the Lease without our prior written consent;

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(e) That the lessor provide to us copies of any and all notices of default given to you under the Lease;

(f) That we have the right to enter the Approved Location(s) to make modifications necessary to protect the Marks or the System or to cure any default under the Franchise Agreement or under the Lease; and

(g) That we (or our designee) have the option, upon default, expiration, or termination of the Franchise Agreement, and upon notice to the lessor, to assume all of your rights under the Lease terms, including the right to assign or sublease.

6. You must execute a Lease for the Approved Location(s) within sixty (60) days of the date of this Site Selection Addendum. You must furnish us with a copy of any executed Lease within ten (10) days after execution thereof.

7. After we have approved a site for the Franchised Business in writing and you have acquired the site pursuant to Paragraph 4 hereof, the site will constitute the Approved Location(s) of the Franchised Business referred to in Section 7.1 of the Franchise Agreement.

8. You hereby acknowledge and agree that our approval of a site does not constitute an assurance, representation or warranty or any kind, express or implied, as to the suitability of the site for the Franchised Business or for any other purpose. Our approval of the site indicates only that we believe the site complies with acceptable minimum criteria established by us solely for our purposes as of the time of the evaluation. Both parties to this Site Selection Addendum acknowledge the application of criteria that have been effective with respect to other sites and Approved Location(s) may not be predictive of potential for all sites and that, subsequent to our approval of a site, demographic and/or economic factors, such as competition from other similar businesses, included in or excluded from our criteria could change thereby altering the potential of a site. Such factors are unpredictable and are beyond our control. We will not be responsible for the failure of a site approved by us to meet your expectations as to revenue or operational criteria. You further acknowledge and agree that your acceptance of a franchise for the operation of the Franchised Business at the Approved Location(s) is based on your own independent investigation of the suitability of the Approved Location(s).

9. This Site Selection Addendum constitutes an integral part of the Franchise Agreement between the parties hereto, and terms of this Site Selection Addendum will be controlling with respect to the subject matter hereof. Except as modified or supplemented by this Site Selection Addendum, the terms of the Franchise Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto have duly executed this Site Selection Addendum on the day and year first above written.

CALIFORNIA CLOSET COMPANY, INC. _____

By: _____ By: _____

Name: _____ Name: _____

Its: _____ Its: _____

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EXHIBIT F
COLLATERAL ASSIGNMENT OF LEASE

FOR VALUE RECEIVED, the undersigned ("**Assignor**") hereby assigns and transfers to California Closet Company, Inc. ("**Assignee**"), all of Assignor's right, title and interest as tenant in, to and under that certain lease, a copy of which is attached hereto as Exhibit 1 ("**Lease**") respecting the Approved Location(s) commonly known as _____. This Collateral Assignment of Lease ("**Assignment**") is for collateral purposes only and except as specified herein, Assignee has no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee takes possession of the Approved Location(s) demised by the Lease pursuant to the terms hereof and assumes the obligations of Assignor thereunder. All capitalized terms not otherwise defined in this Assignment shall have the same meanings as ascribed to such terms in the Franchise Agreement between Assignee and Assignor ("Franchise Agreement").

Assignor represents and warrants to Assignee that it has full power and authority to so assign the Lease and its interest therein and that Assignor has not previously assigned or transferred, and is not obligated to assign or transfer, any of its interest in the Lease or the Approved Location(s) demised thereby.

Upon a default by Assignor under the Lease or under the Franchise Agreement between Assignee and Assignor, or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, or upon expiration or termination of the Franchise Agreement or this Assignment, Assignee has the right and is hereby empowered to take possession of the Approved Location(s) demised by the Lease, expel Assignor therefrom, and, in such event, Assignor will have no further right, title or interest in the Lease. Assignor hereby authorizes the Lessor to disclose to Assignee, upon its request, sales and other information furnished to the Lessor by Assignor.

Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any renewals thereto, Assignor agrees that it must elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless Assignee otherwise agrees in writing.

If Assignee does not otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place and stead of Assignor for the purpose of effecting such extension or renewal.

Dated: _____

ASSIGNOR:

_____

By: _____
Name: _____
Its: _____

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CONSENT AND AGREEMENT OF LESSOR
TO COLLATERAL ASSIGNMENT OF LEASE

The undersigned Lessor under the Lease defined in the foregoing Collateral Assignment of Lease hereby:

(a) Agrees to notify California Closet Company, Inc. ("**Assignee**") in writing of and upon the failure of _____ ("**Assignor**") to cure any default by Assignor under the Lease;

(b) Agrees that Assignee has the right, but must not be obligated, to cure any default by Assignor under the Lease within thirty (30) days after delivery by Lessor of notice thereof in accordance with paragraph (a) above;

(c) Consents to the foregoing Collateral Assignment of Lease and agrees that if Assignee takes possession of the Approved Location(s) (as defined in the Franchise Agreement) demised by the Lease and confirms to Lessor the assumption of the Lease by Assignee as tenant thereunder, Lessor must recognize Assignee as tenant under the Lease, provided that Assignee cures within the thirty (30) day period the defaults, if any, of Assignor under the Lease;

(d) Agrees that Assignee may further assign the Lease to a person, firm or corporation who must agree to assume the tenant's obligations under the Lease and who is reasonably acceptable to Lessor and upon such assignment Assignee will have no further liability or obligation under the Lease as assignee, tenant or otherwise.

LESSOR:

_____

DATED: _____

By: _____
Name: _____
Its: _____

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EXHIBIT G
ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

You authorize regularly scheduled payments to be made from your checking or savings account. Your payments will be made automatically on the specified day. Proof of payment will appear with your statement.

The authority you give to charge your account will remain in effect until you notify us in writing to terminate the authorization. Complete the attached authorization form and return it to us.

Authorization for Direct Payment

I authorize California Closet Company, Inc. to initiate entries to my checking/savings account. This authority will remain in effect until I notify you in writing to cancel it in such time as to afford the company a reasonable opportunity to act on it. I can stop payment of any entry by notifying my financial institution three (3) days before my account is charged.

_____

(Name of Financial Institution) (Branch)

_____

(City) (State) (Zip Code)

☐ Checking or ☐ Savings

TRANSIT ROUTING NUMBER

⑆									⑆

ABA

ACCOUNT NUMBER INFORMATION

I authorize California Closet Company, Inc. to initiate electronic entries to my checking/savings account and have agreed to the terms listed on the authorization. I may revoke my authorization with you at any time by writing to the address above.

Payment amount: Varies

Payment Date: _____

_____

(Signature) (Date)

_____

(Name- Please Print)

_____

(Address- Please Print)

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EXHIBIT B-2

TO THE CALIFORNIA CLOSET COMPANY FRANCHISE DISCLOSURE DOCUMENT

SAMPLE RELEASE LANGUAGE FOR RENEWAL OF FRANCHISE AGREEMENT

RELEASE

In exchange for our grant of a successor franchise to you, and in accordance with Section_____ of your Prior Franchise Agreement, you and your affiliates, owners, guarantors, successors and assigns, and predecessors hereby release, remise and forever discharge us and our affiliates and each of our and our affiliates' respective predecessors, successors and assigns, parents, subsidiaries and affiliated corporations, officers, directors, agents, employees and representatives, past and present, of any and all of such corporations, of and from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, covenants, contracts, agreements, promises, damages, judgments, extents, executions, liabilities and obligations, both contingent and fixed, known and unknown, of every kind and nature whatsoever in law or equity, or otherwise, under local, state, or federal law, against any of them, including, without limitation, your Prior Franchise Agreement, which you or your affiliates, owners, guarantors and predecessors in interest, if any, ever had, now have, or which you or your heirs, executors, administrators, successors, or assigns hereafter can, shall, or may have, for, upon, or by reason of, any matter, cause, or thing whatsoever, for acts and occurrences prior to and including the Effective Date of this _____.

In exchange for your agreement to enter into this Release and except for accounts receivable and other amounts accrued and not yet paid billed under the Prior Franchise Agreement as of the Effective Date of this Release, we, and our parent, officers, directors, agents, employees, successors and assigns, hereby release, remise and forever discharge you and each of your officers, directors, agents, employees and representatives, past and present, of and from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, promises, damages, judgments, extents, executions, liabilities and obligations, both contingent and fixed, known and unknown, of every kind and nature whatsoever in law or equity, or otherwise, under local, state, or federal law, against any of them, which we or our parent, officers, directors, agents, employees, if any, ever had, now have, or which we or our successors, or assigns hereafter can, shall, or may have, for, upon, or by reason of, any matter, cause, or thing whatsoever, for acts and occurrences prior to and including the Effective Date of this _____.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

EXHIBIT C

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

RESERVED

EXHIBIT D

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

SAMPLE NONDISCLOSURE AGREEMENT

NONDISCLOSURE AGREEMENT ("Agreement")
(for use by franchisee)

In consideration of my being a [**insert here position of employee**] of [**insert here name of franchisee entity**] ("Franchisee"), and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree that: Franchisee, has acquired the right and franchise from California Closet Company, Inc. ("Company") to establish and operate a California Closets® business ("Franchised Business") and the right to use in the operation of the Franchised Business the Company's trade names, trademarks and service marks and the Company's unique and distinctive format and system relating to the establishment and operation of Franchised Business (individually and collectively, "System"), as they may be changed, improved and further developed from time to time in the Company's sole discretion, only at the following authorized and approved location: _____ ("Franchised Business Premises") within the following marketing area _____ ("Marketing Area").

1. The Company possesses certain proprietary and confidential information and trade secrets relating to the operation of the System, which includes trade secrets; price marketing mixes related to products and services offered by Franchised Businesses; customer information including customer names, addresses, purchasing histories, discounts offered and payment terms (individually and collectively "Customer Lists"); supplier networks and pricing arrangements with suppliers; Company's customized technology platform, computer software or similar technology and digital passwords and identifications that Company has licensed to Franchisee or that otherwise is proprietary to Franchisor or the System); copyrighted materials, and other methods, techniques and know-how concerning the of operation of the Franchised Business; and all information relating to the System now or hereafter revealed to Franchisee by Company or by others on behalf of Company, including, without limitation, all information set forth in the Operations Manual; and any and all information, knowledge, know-how, and techniques which the Company specifically designates as confidential will be deemed to be "Confidential Information" for purposes of this Agreement.

2. As [**insert here position of employee**] of the Franchisee, the Company and/or Franchisee will disclose the Confidential Information to me in furnishing to me the training program and subsequent ongoing training, the Company's Operations Manual for system franchisees ("Manual") and other general assistance during the term of this Agreement.

3. I will not acquire any interest in the Confidential Information, other than the right to utilize it in the operation of the Franchised Business during the term hereof, and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition.

4. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I will hold in strict confidence all Confidential Information and all other information designated by the Company as confidential. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties as _____ of the Franchisee, and will continue not to disclose any such information even after I cease to be in that position.

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

6. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchisee. I am aware that my violation of this Agreement will cause the Company and the Franchisee irreparable harm; therefore, I acknowledge and agree that the Franchisee and/or the Company may apply for the issuance of an injunction preventing me from violating this Agreement, and I agree to pay

the Franchisee and the Company all the costs it/they incur(s), including, without limitation, attorneys' fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to the Franchisee and the Company, any claim I have against the Franchisee or the Company is a separate matter and does not entitle me to violate or justify any violation of this Agreement.

7. This Agreement will be construed under the laws of the state where the Franchised Business is located (without reference to its conflict of laws principles). The only way this Agreement can be changed is in writing signed by both the Franchisee and me.

Signature: _____

Name: _____

Address: _____

Title: _____

ACKNOWLEDGED BY FRANCHISEE

By: _____

Name: _____

Title: _____

EXHIBIT E

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

CONSENT TO TRANSFER OF RIGHT TO OPERATE FRANCHISED BUSINESS AND SALE OF CERTAIN ASSETS

CONSENT TO TRANSFER OF RIGHT TO OPERATE FRANCHISED BUSINESS AND SALE OF CERTAIN ASSETS
([Marketing Area])

This **CONSENT TO TRANSFER OF RIGHT TO OPERATE FRANCHISED BUSINESS AND SALE OF CERTAIN ASSETS** ("Consent") is entered into as of the Effective Date set forth below by and between **CALIFORNIA CLOSET COMPANY, INC.**, a California corporation ("Franchisor"), _____, a[n] _____ [entity type] ("Seller"), and _____ a[n] [entity type] ("Buyer"). All capitalized terms not defined in this Consent shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A below).

Recitals

A. Franchisor entered into a Franchise Agreement dated _____[as amended ____] ([collectively,]"Franchise Agreement") with Seller for the operation of a California Closets® business in [Marketing Area] ("Franchised Business").

B. Seller wishes to sell to Buyer, and Buyer wishes to buy from Seller, Seller's rights in and to the Franchised Business ("Transfer") pursuant to that certain purchase agreement between Buyer and Seller.

C. Franchisor has the right to approve the Transfer pursuant to the Franchise Agreement. Seller has requested that Franchisor give its consent to the Transfer and Franchisor is willing to give its consent subject to the terms and conditions of this Consent.

NOW THEREFORE, the parties agree as follows:

Agreement

1. Incorporation of Recitals. The Recitals of this Agreement are incorporated herein and made a part hereof by this reference thereto.

2. Effective Date. The effective date of this Agreement ("Effective Date") shall be the actual date of closing of the Transfer ("Closing"). If Closing has not occurred by _____, this Agreement shall not take effect.

3. Franchisor's Consent and Waiver. Upon the terms and conditions set forth herein, Franchisor consents, as of the Effective Date, to the Transfer of the Franchised Business from Seller to Buyer. Franchisor also waives any rights it may have under the Franchise Agreement to exercise any right of first refusal.

4. Conditions to Franchisor's Consent. Franchisor's consent to the Transfer is expressly conditioned upon the satisfaction of the following conditions:

   (a) Seller for itself and any heirs, successors and assigns shall release Franchisor from all claims which it may have against Franchisor arising from the Franchise Agreement;

   (b) Seller must strictly comply with all post-termination obligations pursuant to the Franchise Agreement naturally surviving thereunder, including without limitation, those covenants related to post-termination indemnification, confidentiality, non-competition, and non-solicitation;

   (c) As of the Effective Date, Buyer shall enter into Franchisor's then-current form of franchise agreement, including any exhibits to the franchise agreement, for the operation of the Franchised Business;

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(d) Receipt by Franchisor of the _____ Transfer Fee and _____ Training Fee at Closing;

(e) At Closing, Seller shall remit $_____ to Franchisor, the parties' hereby agreeing that this amount represents a fair and accurate estimate of the final royalty, marketing and other fees and amounts due to Franchisor for the month of _____ ("Estimated Fees"); and

(f) As of the Effective Date, the Seller will not hold any customer deposits.

5. Fees Reconciliation. Within thirty (30) business days from the Effective Date, Franchisor shall examine the Franchise Sales Report filed by the Seller for the month of _____ __and reconcile the amount reported with the amount of Estimated Fees to determine the Exiting Fees. Should the Estimated Fees paid be greater than what was reported, Franchisor shall remit the difference to Seller at the following address:

[Name of Seller]
[Address of Seller]

6. Liability of Seller. Nothing herein releases Seller from any obligation to Franchisor arising under the Franchise Agreement or _____ and _____ from any obligation to the Franchisor arising under the Guaranty prior to the Effective Date. _____ and _____ acknowledge that _____ and _____ will be liable for all matters covered by the Guaranty for the period prior to the Effective Date, including but not limited to the Original Franchisee's obligation to indemnify the Franchisor and its affiliates for any claim arising from the operation of the Franchised Business prior to the Effective Date.

No Waiver of Defaults. Neither the giving of its consent hereunder nor any specific provision of this Agreement shall be construed as a waiver by the Franchisor of any default of the Original Franchisee under the Franchise Agreement or of _____ and _____ under the Guaranty.

7. No Reliance on Franchisor. Each of the Seller, [names of owners of Original Franchisee], Buyer, and [names of owners of Buyer] acknowledge that:

(a) Other than as set forth in this Agreement, they have not relied on any statement or representation of Franchisor in entering into or consummating the Transfer;

(b) Except for the matters covered in this Agreement, Franchisor has not been involved in any negotiations or agreements pertaining to the Transfer;

(c) Franchisor has no knowledge of, and makes no warranties with respect to, the accuracy of any representations made by Seller or Buyer to each other, and assumes no obligation in that regard; and

(d) Franchisor's consent hereunder is not an endorsement or undertaking by Franchisor with respect to the monetary terms of the Transfer. Seller and the Buyer have independently evaluated the proposed transaction and obtained independent professional assistance and have not relied on Franchisor's consent as an appraisal of the terms.

8. Release from Franchise Agreement. Upon Transfer, Seller, [members, shareholders, owners] and Franchisor hereby agree as follows:

(a) Seller and [members/shareholders/owners] for each of themselves and their heirs, successors and assigns hereby release, acquit and forever discharge Franchisor and its present, former and future officers, employees, shareholders, directors, agents, servants, representatives, parent, affiliates, successors and assigns ("Franchisor Releasees") from all obligations, claims, debts, demands, covenants, contracts, agreements, liabilities,

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costs, attorneys' fees, actions or causes of action whatsoever, whether known or unknown, which Seller had, has or claims to have against Franchisor Releasees, including specifically but not exclusively and without limiting the generality of the foregoing, any and all claims, demands and causes of action arising out of, pursuant to, or related to the Franchise Agreement and any and all correspondence, representations, certifications, warranties, promises, or acts made in reliance upon any one or more of the same, whether oral or written, or based in whole or in part on events occurring prior to the date hereof, connected with or related to the Franchise Agreement.

(b) Seller, [members/owners/shareholders] and Franchisor each warrant and represent that they have not sold, assigned, granted or transferred to any other person, firm or concern, any demand or cause of action or any participation or share in any of the same, covered by the terms of the Franchise Agreement and that they have the authority to consummate all the transactions contemplated in this Consent.

(c) [Except as set forth in this Consent, the parties to the releases set forth in subparagraph (a) above each expressly waive and relinquish all rights and benefits afforded by Section 1542 of the Civil Code of the State of California, and do so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 of the Civil Code of the State of California states as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor as of the date of executing the release, which if known by him or her must have materially affected is or her settlement with the debtor.

Thus, notwithstanding the provisions of Section 1542, and for the purposes of implementing a general release and discharge of claims as described in subparagraph (a) above, the parties to the releases each expressly acknowledge that the releases are intended to include in their effect, without limitation, all claims described in subparagraph (a) above which Seller does not know or suspect to exist in their favor at the time of execution hereof, and that this Consent contemplates the extinguishment of any such claims.]

9. Cessation of Operations. Immediately upon the assignment consented to hereunder, the Seller shall cease operating its Franchised Business under the Franchise Agreement, except with respect to any matters required pursuant to the wind up and dissolution of Seller, if applicable.

10. No Assignees. This Consent, and the consent to Transfer incorporated herein, are effective solely with respect to Buyer and may not be assigned or transferred, voluntarily or involuntarily, to any other person, firm or entity.

11. Conflicts with Other Agreements. All parties agree that, in the event of any conflict between the terms of this Consent and the terms of any other agreement relating to the Transfer, the terms of this Consent shall prevail.

12. Governing Law. This Consent shall be construed under the laws of the state in which the Franchised Business is located, which laws shall control in the event of any conflict of law. In the event of any litigation to enforce any of the provisions of this Consent, the prevailing party shall be entitled to reimbursement of costs, including without limitation, reasonable attorneys' fees.

13. Entire Agreement. This Consent constitutes the entire agreement between the parties hereto with respect to consent for the Transfer, all other understandings or representations whether oral or written, having been incorporated herein, are otherwise superseded. This Consent may not be modified except by a written amendment signed by all of the parties.

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14. Counterparts. This Consent may be executed in several counterparts, each of which shall be deemed an original and all such counterparts together shall constitute one and the same instrument. This Consent may be signed electronically via DocuSign or scanned image file, such as .pdf, and forwarded to the other party via email or facsimile and such signatures shall be deemed original signatures binding on the signing party.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK – SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, each party, for himself or herself, or it, by and through its authorized representative having full power and authority to bind his or her respective party to the obligations set forth in this Consent, without the need for further approval or power of any kind, has duly executed this Consent as of the Effective Date.

SELLER **[NAME OF SELLER]**

By: _____

Printed Name: _____

Title: _____

BUYER: **[NAME OF BUYER]**

By: _____

Printed Name: _____

Title: _____

FRANCHISOR: **CALIFORNIA CLOSET COMPANY, INC.**

By: _____

Name: _____

Title: _____

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EXHIBIT F

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

LIST OF FRANCHISEES AS OF DECEMBER 31, 2023

United States

FRANCHISEE	ADDRESS	CITY	STATE	ZIP	PHONE #
Rob Wright	12254 Iavelli Way	Poway	CA	92064	(858) 695-0882
Eric Baggiolini	1670 Las Plumas Avenue, Suite B	San Jose	CA	95030	(408) 395-7200
Steve and Cathy Brennan	7 Progress Drive	Shelton	CT	06484	(203) 924-8444
Kenneth J. Cleary and Kenneth J. Cleary II	4522 107th Circle North	Clearwater	FL	33762	(727) 573-0700
Suzi Woods	5844 Enterprise Parkway	Fort Myers	FL	33905	(239) 694-8100
Bob Westenberg, Bob Westenberg Jr., and Jonathan Seltzer	900 Park Centre Blvd. #476	Miami	FL	33169	(305) 623-8282
Carol and Scott Schiff, Patti Schiff and Lori Hoyt	290 SW 12th Ave, Suite 7	Pompano Beach	FL	33069	(954) 946-2218
Kent Untermann	4211 Waialae Ave., Suite 1070	Honolulu	HI	96816	(808) 739-7300
Jason and Chantale Morgenstern	627 N. Baugh Way	Post Falls	ID[(1)]	83854	(509) 926-3312
Mark Riggle, Charlie Meyer and Marcus Hall	3956 Culligan Ave	Indianapolis	IN[(2)]	46218	(317) 849-1000
Mike Hathaway	8325 Melrose Drive	Lenexa	KS	66214	(913) 888-1199
Joe Lindenmayer	3211 N. Causeway Blvd.	Metairie	LA[(3)]	70002	(504) 828-5705
Ray and Sheilah Markham	3260 Old Farm Lane	Walled Lake	MI[(4)]	48390	(248) 624-1234
Robert Alexander Jr.	1 Lami Industrial Drive	St. Charles	MO	63304	(636) 779-0720
Douglas Buehler	4324 Barringer Dr Ste 110	Charlotte	NC	28217	(704) 527-5505
Joe and Graziella Marengi	8311 Brier Creek Parkway, Suite 105-405 (mailing address only)	Raleigh	NC[(5)]	27617	(919) 785-1115
Robert and Julie LaFranco	4 Gardner Rd	Fairfield	NJ	07004	(973) 882-3800
Ron and Ana Young	5640 Venice Avenue N.E., Suite D	Albuquerque	NM	87113	(505) 858-1100
Sean and Joy Rafferty	16 Petra Lane	Albany	NY	12205	(518) 218-7883

FRANCHISEE	ADDRESS	CITY	STATE	ZIP	PHONE #
Chris Pinto & John Romagnola	2914 Walden Ave, Suite 400	Depew	NY	14043	(716) 651-9393
Bob Westenberg, Bob Westenberg Jr., Sandra Gelmin	16 Saw Mill River Road	Hawthorne	NY	10532	(914) 592-1001
Vera DeVincenzo and Anthony DeVincenzo	2141 Fifth Ave	Ronkonkoma	NY	11779	(631) 737-2224
Juan and Stephanie Antunez	1100 Resource Dr, Suite 3	Brooklyn Heights	OH(6)	44131	(216) 741-9000
Jeff Orr	5400 Paxton Street	Harrisburg	PA	17111	(717) 790-0103
Michael Ranaglia	163 Upper Fricks Lock Road	Pottstown	PA	19465	(610) 970-0001
Joe Sampson	Industrial Minillas, 315 Calle D Suite 4	Bayamon	PR	00959-1906	(787) 780-0640
Tom Rogers and Steve Rogers	1750 Signal Point Rd Unit 6C	Charleston	SC	29412	(843) 762-7980
Kurt Schusterman	7106 Crossroads Blvd, Suite 206	Brentwood	TN	37027	(615) 367-1030
Daniel Siegel and Richard Siegel	1111 Arion Parkway, Suite 120	San Antonio	TX	78216	(210) 829-1991

Notes:

(1) Franchisee's Marketing Area includes of a portion of Idaho and Washington.

(2) Franchisee has multiple Marketing Areas, including portions of Indiana, Kentucky and Ohio.

(3) Franchisee has multiple Marketing Areas, including portions of Louisiana, Mississippi and Florida. This is the only franchisee who operates their business under the DSI model.

(4) Franchisee has two Marketing Areas in Michigan.

(5) Franchisee has two Marketing Areas one in North Carolina, and one in Virginia.

(6) Franchisee has multiple Marketing Areas, including portions of Ohio and Pennsylvania.

EXHIBIT G

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

LIST OF STATE AGENCIES/LIST OF AGENTS FOR SERVICE OF PROCESS

LIST OF STATE ADMINISTRATORS

California Department of Financial Protection
and Innovation
TOLL FREE 1-(866) 275-2677

LA Office
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
(213) 576-7500

Sacramento Office
1515 K Street, Suite 200
Sacramento, CA 95814-4052
(866) 275-2677

San Diego Office
1350 Front Street, Room 2034
San Diego, CA 92101-3697
(619) 525-4233

San Francisco Office
71 Stevenson Street, Suite 2100
San Francisco, CA 94105-2980
(415) 972-8559

Florida Department of Agricultural
and Consumer Services
Division of Consumer Services
Mayo Building, Second Floor
Tallahassee, Florida 32399-0800
(904) 922-2770

Hawaii Commissioner of Securities
State of Hawaii Department of Commerce and Consumer Affairs
Business Registration Division – Securities Compliance Branch
335 Merchant Street, Room 205
Honolulu, HI 96813
(808) 586-2722

Illinois Attorney General
500 South Second Street
Springfield, IL 62706
(217) 782-4465

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-11
Indianapolis, IN 46204
(317) 232-6681

Kentucky Office of the Attorney General
Consumer Protection Division
P.O. Box 2000
Frankford, KY 40602
(502) 573-2200

Maryland Securities Commissioner
Office of the Attorney General
Securities Division
200 St. Paul Place
Baltimore, MD 21202-2020
(410) 576-6360

Michigan Department of the Attorney General
Consumer Protection Division
Antitrust and Franchise Unit
P.O. Box 30054, 6546 Mercantile Way
Lansing, MI 48909
(517) 373-7117

Minnesota Department of Commerce
Securities Section
85 7th Place East, Suite 280
St. Paul, MN 55101-2198
(651) 539-1500

Nebraska Department of Banking and Finance
1200 North Street, Suite 311
P.O. Box 95006
Lincoln, NE 68509-5006
(402) 471-3445

Secretary of the State of New York
Agent for Service of Process
41 State Street
Albany, N. Y. 12231
(212) 416-8211

North Dakota Securities Department
State Capital, 5th Floor
600 East Boulevard Avenue
Bismarck, ND 58505-0510
(701) 328-2910

Oregon Department of Consumer
and Business Services
Division of Finance and Corporate
Securities labor and Industries
350 Winter Street, NE, Room 410
Salem, OR 97310-3881
(503) 378-4140

Rhode Island Division Of Securities
233 Richmond Street, Suite 232
Providence, RI 02903-4232

South Dakota Department of Labor and Regulation
Division of Securities
124 S. Euclid, Suite 104
Pierre, SD 57501-3185
(605) 773-4823

Statutory Document Section
Texas Secretary of State
P.O. Box 12887
Austin, TX 78711
(512) 475-1769

State of Utah
Division of Consumer Protection
P.O. Box 45804
Salt Lake City, Utah 84145-0804
(801) 530-6601

Virginia, Clerk, State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, VA 23219
(804) 371-9051

State of Washington
Director, Department of Financial Institutions
Securities Division
150 Israel Road, SW
Olympia, WA 98501
(360) 902-8760

Wisconsin Commissioner of Securities
201 W Washington Ave., 3rd Floor
Madison, WI 53703
(608) 266-8557

LIST OF AGENTS FOR SERVICE OF PROCESS

CALIFORNIA CLOSET COMPANY, INC.
2001 W. Phelps Road, Suite 1
Phoenix, AZ 85023
(415) 256-8500
franchising@calclosets.com

California Department of Financial Protection and Innovation
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344

Department of Business Oversight
71 Stevenson Street, Suite 2100
San Francisco, CA 94105

Commissioner of Business Oversight
1515 K Street., Suite 200
Sacramento, CA 95814

Commissioner of Securities of the State of Hawaii
Department of Commerce and Consumer Affairs, Business Registration Division
335 Merchant Street, Room 203
Honolulu, HI 96813

Illinois Attorney General
500 South Second Street
Springfield, IL 62706

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-111
Indianapolis, IN 46204

Maryland Securities Commissioner
Office of Attorney General, Securities Division
200 St. Paul Place
Baltimore, MD 21202-2020

Michigan Department of Attorney General
Consumer Protection Division
Antitrust and Franchise Unit
P.O. Box 30054
6546 Mercantile Way Lansing, MI 48909

Minnesota Commissioner of Commerce
85 7th Place East, Suite 280
St. Paul, MN 55101-2198

Secretary of the State of New York
41 State Street
Albany, NY 12231

North Dakota Securities Commissioner
State Capitol – 5th Floor
600 E. Boulevard Avenue
Bismarck, ND 58505

Director of Rhode Island
Department of Business Regulation
Division of Securities, Suite 232
233 Richmond Street
Providence, RI 02903-4232

Director of the Division of Securities
Department of Labor and Regulation
124 S. Euclid, Suite 104
Pierre, SD 57501-3185

Clerk of the State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, VA 23219

Director, Department of Financial Institutions
Securities Division
150 Israel Road, Southwest
Olympia, WA 98501

Wisconsin Commissioner of Securities
201 West Washington Avenue, 3rd Floor
Madison, WI 53703
(608) 261-9555

EXHIBIT H

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

STATE-SPECIFIC ADDITIONAL DISCLOSURES

CALIFORNIA CLOSET COMPANY, INC.
CALIFORNIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the FDD for California residents:

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

   See the cover page of the disclosure document for California Closet Company, Inc.'s website address. THE WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT WWW.DFPI.CA.GOV.

   SECTION 31125 OF THE CALIFORNIA CORPORATIONS CODE REQUIRES US TO GIVE YOU A DISCLOSURE DOCUMENT, IN A FORM CONTAINING THE INFORMATION THAT THE COMMISSIONER MAY BY RULE OR ORDER REQUIRE, BEFORE A SOLICITATION OF A PROPOSED MATERIAL MODIFICATION OF AN EXISTING FRANCHISE.

2. **Cover Page, Additional Disclosure:**

   YOU MUST OBTAIN A CONTRACTING LICENSE IN THE STATE OF CALIFORNIA FROM THE STATE CONTRACTORS LICENSING BOARD BEFORE PERFORMING CERTAIN SERVICES AS A CALIFORNIA CLOSETS® FRANCHISEE.

3. **Item 3, Additional Disclosure:**

   Neither we, nor any person identified in Item 2 of the FDD, is subject to any currently effective order of any national securities association or national securities exchange (as defined in the Securities and Exchange Act of 1934, 15 U.S.C.A. § 78a, *et seq*.) suspending or expelling such person from membership in such association or exchange.

4. **Item 17, Additional Disclosure:**

   California Business and Professions Code Sections 20000 through 20044 establish the rights to the Franchisee concerning termination, transfer, or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

   The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. §101 et seq.).

   YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516.

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the Franchise Agreement. This provision may not be enforceable under California law.

California Business and Professions Code Section 20044 prohibits a franchisor from modifying a franchise agreement, or requiring a general release, in exchange for any assistance related to a declared state or federal emergency.

California Corporations Code §31212 prohibits a franchisor from refusing to grant a franchise, or refusing to provide financial assistance, to a Franchisee or prospective Franchisee that has been granted or provided to other similarly situated Franchisees or prospective Franchisees based solely on any characteristic of the Franchisee or prospective Franchisee, or any characteristic of the composition of the neighborhood or geographic area where the Franchised Business is located or the proposed Franchised Business would be located, listed or defined in subdivision (b) or (e) of Section 51 of the Civil Code.

5. **Franchise Disclosure Document, Additional Disclosure:**

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
CALIFORNIA ADDENDUM TO THE FRANCHISE AGREEMENT

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

The Franchise Agreement requires you to sign a general release of claims upon renewal or transfer of the Franchise Agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order thereunder is void. Section 31512 voids a waiver of certain of your rights under the Franchise Investment Law (California Corporations Code Section 31000-31516). Business and Professions Code Section 20010 voids a waiver of certain of your rights under the California Franchise Relations Act (Business and Professions Code Sections 20000-20044).

California Business and Professions Code Section 20044 prohibits a franchisor from modifying a franchise agreement, or requiring a general release, in exchange for any assistance related to a declared state or federal emergency.

The Franchise Agreement provides for termination upon bankruptcy. This provision might not be enforceable under federal bankruptcy law (11 U.S.C.A. Sections 101 *et seq.).*

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the Franchise Agreement. This provision might not be enforceable under California law.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
HAWAII ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the FDD for Hawaii residents:

Cover Page, Additional Disclosure:

THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE OFFERING CIRCULAR, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS OFFERING CIRCULAR CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

Registered agent in the state authorized to receive service of process: Commissioner of Securities, Department of Commerce and Consumer Affairs, Business Registration Division, Securities Compliance Branch, 335 Merchant Street, Room 203, Honolulu, Hawaii 96813.

The following is the registration of franchises in other states:

A. The states in which this filing is effective: California, Illinois, Kentucky, Maryland, Michigan, Nebraska, New York, Texas, Virginia and Washington

B. The states in which this filing is or will be shortly on file: Florida and Hawaii

C. The states, if any, which have refused, by order or otherwise, to register these franchises: None

D. The states, if any, which have revoked or suspended the right to offer these franchises: None

E. The states, if any, in which the filing of these franchises has been withdrawn: None

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other

person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
HAWAII ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF HAWAII ARE HEREBY AMENDED AS FOLLOWS:

No release language set forth in the Franchise Agreement shall relieve California Closet Company, Inc. or any other party, directly or indirectly, from liability imposed by the laws concerning franchising in the State of Hawaii.

Article 14 of the Franchise Agreement is hereby supplemented with the following provision (Section 14.8 in Franchise Agreement):

> Hawaii Law. Pursuant to Section 482E-6(3) of the Hawaii Revised Statutes, for so long as such statute remains in effect and so provides, upon termination or refusal to renew the Franchise Agreement, Franchisee shall be compensated for the fair market value, at the time of termination or expiration of the Franchise Agreement, of Franchisee's inventory, supplies, materials and furnishings purchased from the Franchisor or a supplier designated by the Franchisor, exclusive of personalized materials which have no value to the Franchisor. If the Franchisor refuses to renew a Franchise Agreement for the purpose of converting the Franchised Business to one owned by the Franchisor, the Franchisor, in addition to the remedies provided in this Section, shall compensate Franchisee for the loss of goodwill. The Franchisor may deduct from such compensation reasonable costs incurred in removing, transporting, and disposing of Franchisee's inventory, supplies, materials, and furnishings pursuant to this Section, and may offset from such compensation any moneys due to the Franchisor.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
ILLINOIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the FDD for Illinois residents:

Item 17, Additional Disclosures:

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

Section 4 of the Act states that any provision in the Franchise Agreement that designates jurisdiction or venue for litigation in a forum outside of Illinois is void with respect to any action which is otherwise enforceable in Illinois.

The conditions under which your Franchise Agreement can be terminated and your rights upon nonrenewal may be affected by Sections 705/1 through 705/44 of the Illinois Franchise Disclosure Act.

With respect to any agreement executed and operational in the State of Illinois, any governing law or choice of law clause granting authority to a state other than Illinois is hereby amended to grant authority of the Illinois Franchise Disclosure Act.

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
ILLINOIS ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF ILLINOIS ARE HEREBY AMENDED AS FOLLOWS:

1. The Franchisor and Franchisee hereby acknowledge that this Franchise Agreement shall be governed by Illinois Law.

2. Illinois Law states that "any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void."

3. The conditions under which the Franchised Business may be terminated and the Franchisee's rights upon non-renewal are governed by Illinois Compiled Statutes 1992, Chapter 815, Section 705/18 through 705/20.

4. With respect to any agreement executed and operational in the State of Illinois, any governing law or choice of law clause granting authority to a state other than Illinois is hereby amended to grant authority of Illinois Law.

5. Any provision in the 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 this State.

6. No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
INDIANA ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF INDIANA ARE HEREBY AMENDED AS FOLLOWS:

1. Any agreement executed in and operative within the State of Indiana shall be governed by applicable Indiana franchise laws and the right of any Franchisee to institute a civil action or initiate arbitral proceedings within the State of Indiana shall not be deemed to have been abridged in any form or manner by any provisions contained in this Franchise Agreement.

2. In compliance with Indiana Code 12-2-2.7-1(9), any provisions in this Franchise Agreement relating to non-competition upon the termination or non-renewal of the Franchise Agreement shall be limited to a geographic area not greater than the Marketing Area granted in this Franchise Agreement and shall be construed in accordance with Indiana Code 23-2-2.7-1(9).

3. Indiana Code section 23-2-2.7-1(10) prohibits the choice of an exclusive forum other than Indiana.

4. Indiana Code section 23-2.2.7-1(10) prohibits the limitation of litigation. The Indiana Secretary of State has interpreted this section to prohibit provisions in contracts regarding liquidated damages. Accordingly, any provisions in the Franchise Agreement regarding liquidated damages may not be enforceable.

5. In compliance with Indiana Code 23-2-2.7-1(10), any inference contained in this Franchise Agreement to the effect that the Franchisor “is entitled” to injunctive relief shall, when applicable to a Franchise Agreement executed in and operative within the State of Indiana, hereby be deleted, understood to mean and replace the words “may seek”.

6. Indiana Code section 23-2-2.5 and 23-2-2.7 supersedes the choice of law clauses of the Franchise Agreement.

7. Indiana Code section 23-2.2.7-1 makes it unlawful for the Franchisor to terminate a Franchise Agreement without good cause or to refuse to renew a Franchise Agreement on bad faith.

8. Any reference contained in this Franchise Agreement to a prospective Franchisee's “exclusive Marketing Area” shall, in any Franchise Agreement executed in and operative within the State of Indiana, hereby be deleted and replaced with the words “non-exclusive Marketing Area”.

9. In compliance with Indiana Code 23-2-2.7-1(5), any requirement that the Franchisee must execute a release upon termination of this Franchise Agreement shall not be mandatory and is hereby made discretionary. However, Franchisee shall execute all other documents necessary to fully rescind all agreements between the parties under this Franchise Agreement.

10. No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
MARYLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for Maryland residents:

1. **Cover Page, Additional Disclosure:**

   FRANCHISEE MAY BRING ANY CLAIMS UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW IN A MARYLAND COURT.

2. **Item 17, Additional Disclosures:**

   The Franchise Agreement provides for termination upon bankruptcy. This provision might not be enforceable under federal bankruptcy law (11 U.S.C. Sections 101 *et seq.*).

   Any provision requiring you to sign a release of claims against us, including as a condition of renewal or transfer, will not apply to claims you may have under the Maryland Franchise Registration and Disclosure Law.

   Any choice of forum for litigation is subject to your right to bring an action under the Maryland Franchise Registration and Disclosure Law in Maryland.

   Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

3. **Franchise Disclosure Document, Additional Disclosure:**

   No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
MARYLAND ADDENDUM TO THE FRANCHISE AGREEMENT

THE FRANCHISE AGREEMENT TO WHICH THIS ADDENDUM IS ATTACHED AND INCORPORATED IS HEREBY AMENDED AS FOLLOWS:

1. Despite anything to the contrary contained in the Franchise Agreement, the general release required as a condition of the resale of an existing Franchised Business by a Franchisee shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

2. Despite the provisions of Article 17, the Franchisee may sue in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

3. The acknowledgements and representations contained in the Franchise Agreement are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred by Franchisor under the Maryland Franchise Registration and Disclosure Law.

4. No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
MICHIGAN ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for Michigan residents:

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.

(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 the Michigan Franchise Investment 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 Agreement prior to the expiration of its term except for good cause. Good cause shall include the failure of the Franchisee to comply with any lawful provision of the Franchise Agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a Franchisor to refuse to renew a Franchise Agreement 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 Agreement is less than 5 years and (ii) the Franchisee is prohibited by the Franchise Agreement 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 Agreement or the Franchisee does not receive at least 6 months advance notice of Franchisor's intent not to renew the Franchise Agreement.

(e) A provision that permits the Franchisor to refuse to renew a Franchise Agreement 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. **[Note: California Closet Company, Inc. reserves the right to challenge this requirement of Michigan law, as it applies to arbitration 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 Subsection does not prevent a Franchisor from exercising a right of first refusal to purchase the Franchised Business. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the Franchisor's then-current reasonable qualifications or standards.

(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 Subsection does not prohibit a provision that grants to a Franchisor a right of first refusal to purchase the assets of a Franchised Business on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this Subsection prohibit a provision that grants the Franchisor the right to acquire the assets of a Franchised Business 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) or upon termination or expiration of the Franchise Agreement.

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

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

Any questions regarding this Notice shall be directed to the Department of Attorney General, Consumer Protection Division, 670 Law Building, 525 West Ottawa Street, Lansing, Michigan 48913, (517) 373-7117.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for Minnesota residents:

1. **Item 13, Additional Disclosure:**

   We will indemnify you against liability to a third party resulting from claims that your use of a Trademark infringes trademark rights of a third party, provided that your use of the Trademarks is in accordance with the requirements of the Franchise Agreement.

2. **Item 17, Additional Disclosures:**

   We will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5, which requires, except in certain specified cases, that we give you 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of the Franchise Agreement.

   Minn. Stat. Sec. 80C.21 and Minn. Rule 2860.4400J might prohibit us from requiring litigation to be conducted outside Minnesota. Those provisions also provide that no condition, stipulations or provision in the Franchise Agreement shall in any way abrogate or reduce any rights you have under the Minnesota Franchises Law, including (if applicable) the right to submit matters to the jurisdiction of the courts of Minnesota and the right to any procedure, forum or remedies that the laws of the jurisdiction provide.

   Any release required as a condition of renewal or transfer/assignment will not apply to the extent prohibited by the Minnesota Franchises Law.

3. **Franchise Disclosure Document, Additional Disclosure:**

   No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
MINNESOTA ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF MINNESOTA ARE HEREBY AMENDED AS FOLLOWS:

1. Any reference to liquidated damages or termination penalties contained in this Franchise Agreement, shall be deleted and replaced with the words "actual damages."

2. Pursuant to Minnesota Statute Section 80C.12 Subd. 1(G), the Franchisor shall protect the Franchisee's right to use the Trademarks belonging to the Franchisor and which the Franchisee has been permitted to use under the Franchise Agreement or indemnify the Franchisee from any loss, costs, or expenses arising out of any claim, suit, or demand regarding the use of the name.

3. With respect to franchises governed by Minnesota law, the Franchisor will comply with Minnesota Statute Section 80C.14, Subds. 3 - 5 which require, except in certain specified cases, that a Franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement.

4. Any reference contained in the Franchise Agreement to the effect that the Franchisor "is entitled" to injunctive relief, or any imputation that the Franchisee can waive any rights under any law shall, in any Franchise Agreement entered into in the State of Minnesota be deleted and replaced with the words, "may seek."

5. Minnesota Statute 80C.21 and Minnesota Rule 2860.4400(J) prohibit the Franchiser from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the Franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the Franchisee's rights as provided for in Minnesota Statute 80C or (2) Franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

6. With respect to franchises governed by Minnesota law, Franchisor will comply with Minnesota Rule 2860.4400D which prohibits a Franchisor from requiring a Franchisee to assent to a general release as a requirement to renew or extend.

7. Pursuant to Minnesota Statute Section 80C.17 Subd. 5, no action may be commenced more than three (3) years after the cause of action accrues.

8. No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK – SIGNATURE PAGE FOLLOWS)

The undersigned agree and acknowledge that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
NEW YORK ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

1. The following information is added to the cover page of the Franchise Disclosure Document**:**

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT G OR YOUR PUBLIC LIBRARY FOR SOURCES OR INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271.

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

2. The following is to be added at the end of Item 3**:**

Except as provided above, with regard to the Company, its predecessor, the persons identified in Item 2, or an affiliate offering franchises under the Company's principal Trademark:

A. No such party has an administrative, criminal, or civil action pending against that person alleging: a felony; violation of a franchise, antitrust, or securities law; fraud; embezzlement; fraudulent conversion; misappropriation of property; unfair or deceptive practices; or comparable civil or misdemeanor allegations.

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of Franchisees and the size, nature or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action alleging: violation of a franchise, antitrust, or securities law; fraud; embezzlement; fraudulent conversion; misappropriation of property; unfair or deceptive practices; or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under any federal, state, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law, as a

result of a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a franchise as a real estate broker or sales agent.

3. The following is added to the end of Item 4**:**

Neither we nor any of our predecessors, affiliates, officers, or general partners, during the 10 year period immediately preceding the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the U.S. Bankruptcy Code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the Company held this position in the Company or partnership.

4. Item 5, Additional Disclosure**:**

We use franchise fees to defray our costs of offering franchises and assisting franchisees to start business. A portion of the franchise fees may be profit to us.

5. The following is added to the end of the "Summary" Sections of Item 17(c), titled "Requirements for Franchisee to Renew or Extend," and Item 17(m), entitled "Conditions for Franchisor Approval of Transfer":

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687(4) and 687(5) be satisfied.

6. The following language replaces the "Summary" Section of Item 17(d), titled "**Termination by Franchisee**": You may terminate the Franchise Agreement on any grounds available by law.

7. The following is added to the end of the "Summary" Sections of Item 17(v), titled "**Choice of Forum**", and Item 17(w), titled "**Choice of Law**":

The foregoing choice of law should not be considered a waiver of any right conferred upon the Franchisor or upon the Franchisee by Article 33 of the General Business Law of the State of New York.

The New York General Business Law, Article 33, Sections 680 through 695 may supersede any provision of the Franchise Agreement inconsistent with that law.

You may terminate the Franchise Agreement upon any grounds available by law.

6. **Franchise Disclosure Document, Additional Disclosure:**

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
NEW YORK ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF NEW YORK ARE HEREBY AMENDED AS FOLLOWS:

The foregoing choice of law should not be considered a waiver of any right conferred upon Franchisor or upon Franchisee by the General Business Law of the State of New York, Article 33.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
NORTH DAKOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for North Dakota residents:

Item 17, Additional Disclosures:

Pursuant to the North Dakota Franchise Investment Law, any provision requiring a Franchisee to consent to arbitration outside North Dakota or to consent to the application of laws of a state other than North Dakota is void. **[Note: California Closet Company, Inc. reserves the right to challenge this requirement of North Dakota law, as it applies to arbitration]**.

You are not required to release any claims you might have against us under the North Dakota Franchise Investment Law.

You are not required to consent to a waiver of exemplary or punitive damages against us under the North Dakota Franchise Investment Law.

Covenants not to compete upon termination or expiration of the Franchise Agreement are subject to Section 9-08-06, N.D.C.C.

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
NORTH DAKOTA ADDENDUM TO THE FRANCHISE AGREEMENT

For Franchised Business and Franchisees subject to the North Dakota Franchise Investment Law, the following information supersedes on supplements, as the case maybe, the corresponding disclosures in the main body of the text of the California Closet Company, Inc. Franchise Agreement.

1. The Franchise Agreement is amended by the addition of the following language to the original language that appears therein:

(a) Covenants not to compete upon termination or expiration of a Franchise Agreement are generally unenforceable in North Dakota, except in certain instances as provides by law.

(b) Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of North Dakota is void with respect to any cause of action which is otherwise enforceable in North Dakota.

(c) Any provision in the Franchise Agreement which requires a Franchisee to waive his or her right to a jury trial has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(d) Any provision requiring a Franchisee to sign a general release upon renewal of the Franchise Agreement has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(e) Any provision in the Franchise Agreement requiring a Franchisee to agree to the arbitration or mediation of disputes at a location that is remote from the site of the Franchisee's business has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(f) Apart from civil liability as set forth in Section 51-19-12 of the N.D.C.C., which is limited to violations of the North Dakota Franchise Investment Law (registration and fraud), the liability of the Franchisor to a Franchisee is based largely on contract law. Despite the fact that those provisions are not contained in the North Dakota Franchise Investment Law, those provisions contain substantive rights intended to be afforded to North Dakota residents and it is unfair to franchise investors to require them to waive their rights under North Dakota Law.

(g) Any provision in the Franchise Agreement requiring that the Franchise Agreement be construed according to the laws of a state other than North Dakota are unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(h) Any provision in the Franchise Agreement requiring a Franchisee to consent to termination or liquidated damages is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(i) Any provision in the Franchise Agreement requiring a Franchisee to consent to a waiver of exemplary and punitive damages is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(j) Any provision in the Franchise Agreement requiring a Franchisee to consent to a limitation of claims is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(k) Any provision in the Franchise Agreement requiring a Franchisee to pay all costs and expenses incurred by the Franchisor in enforcing the Franchise Agreement is unfair, unjust, or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

(l) No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
RHODE ISLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for Rhode Island residents:

Item 17, Additional Disclosure:

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."

Section 19-28.1-15 of the Rhode Island Franchise Investment Act provides that: "A condition, stipulation, or provision requiring a franchisee to waive compliance with, or relieving a person of, a duty of liability imposed by or a right provided by this act or a rule or order under this act is void. An acknowledgement provision, disclaimer or integration clause, or a provision having a similar effect in a franchise agreement, does not negate or act to remove from judicial review any statement, misrepresentations, or action that would violate this act or a rule or order under this act. This section shall not affect the settlement of disputes, claims or civil lawsuits arising or brought under this act."

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
RHODE ISLAND ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF RHODE ISLAND ARE HEREBY AMENDED AS FOLLOWS:

1. Pursuant to the Rhode Island Franchise Investment Act, the choice of jurisdiction and venue provisions of this Franchise Agreement shall be governed by Section 19-28.1-14 of the Act.

2. Pursuant to Section 19-28.1-15 of the Act, any condition, stipulation or provision in this Franchise Agreement requiring a Franchisee to waive compliance with or relieving a person of a duty of liability imposed by or a right provided by this Act or a rule or order under this Act is void. An acknowledgment provision, disclaimer or integration clause or a provision having a similar effect in the Franchise Agreement does not negate or act to remove from judicial review any statement, misrepresentations or action that would violate this Act or a rule or order under this Act. This Section shall not affect the settlement of disputes, claims or civil lawsuits arising or brought under this Act.

3. No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
SOUTH DAKOTA ADDENDUM TO THE FRANCHISE AGREEMENT

Neither California Closet Company, Inc., its parent corporation, its predecessor nor any person identified in Item 2 has any material arbitration proceeding pending or has during the 10-year period immediately preceding the date of this Disclosure Document been a party to concluded material arbitration proceedings.

Although the Franchise Agreement requires all arbitration proceedings to be held where the American Arbitration Association designates, the site of any arbitration started pursuant to the Franchise Agreement will be at a site mutually agreed upon by you and us.

We may not terminate the Franchise Agreement for a breach, for failure to meet performance and quality standards and/or for failure to make royalty payments unless you receive thirty (30) days prior written notice from us and you are provided with an opportunity to cure the defaults. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of South Dakota.

The laws of the State of South Dakota will govern matters pertaining to franchise registration, employment, covenants not to compete, and other matters of local concern; but as to contractual and all other matters, the Franchise Agreement will be subject to the applications, construction, enforcement, and interpretation under the governing law of South Dakota.

Any provision in the Franchise Agreement restricting jurisdiction or venue to a forum outside of the State of South Dakota or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under the South Dakota Franchise Act.

Any provision that provides that the parties waive their right to claim punitive, exemplary, incidental, indirect, special, or consequential damages may not be enforceable under South Dakota law.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
VIRGINIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for California Closet Company, Inc. for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure: The following statements are added to Item 17:

Any provision in any of the contracts that you sign with us which provides for termination of the Franchise Agreement upon the bankruptcy of the Franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et. seq.).

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a Franchisor to cancel a Franchise Agreement without reasonable cause. If any ground for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
VIRGINIA ADDENDUM TO THE FRANCHISE AGREEMENT

ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF VIRGINIA ARE HEREBY AMENDED AS FOLLOWS:

Any provision in any of the contracts that you sign with us which provides for termination of the Franchise Agreement upon the bankruptcy of the Franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. 101 et. seq.).

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a Franchisor to cancel a Franchise Agreement without reasonable cause. If any ground for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

The following information is added to the offering circular for Washington residents:

Item 17, Additional Disclosures.

RCW § 19.100.180 and court decisions may supersede the Franchise Agreement in your relationship with us, including in the areas of termination and renewal of your Franchise Agreement.

In the event of a conflict between the Washington Franchise Investment Protection Act and the law chosen in the Franchise Agreement, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, will prevail.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator. **[Note: California Closet Company, Inc. reserves the right to challenge this requirement of Washington law, as it applies to arbitration under the Federal Arbitration Act.]**.

A release or waiver of rights executed by a Franchisee will not include rights under the Washington Franchise Investment Protection Act, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable in Washington.

Transfer fees are collectable to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer.

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
WASHINGTON ADDENDUM TO THE FRANCHISE AGREEMENT

This WASHINGTON ADDENDUM TO THE FRANCHISE AGREEMENT shall pertain to franchises sold in the State of Washington and shall be for the purpose of complying with Washington statutes and regulations. Notwithstanding anything which may be contained in the body of the Franchise Agreement to the contrary, the agreements shall be amended as follows:

If any of the provisions in this Franchise Agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the Franchise Agreement with regard to any franchise sold in Washington.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator. In addition, if litigation is not precluded by the Franchise Agreement, a Franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

Notwithstanding Section 17.5 of the Franchise Agreement, in the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a Franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the Franchisor's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a Franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed $100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a Franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed $250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the Franchise Agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a Franchisor from restricting, restraining, or prohibiting a Franchisee from (i) soliciting or hiring any employee of a Franchisee of the same

Franchisor or (ii) soliciting or hiring any employee of the Franchisor. As a result, any such provisions contained in the Franchise Agreement or elsewhere are void and unenforceable in Washington.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

CALIFORNIA CLOSET COMPANY, INC.
WISCONSIN ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT

For franchises and Franchisees subject to the Wisconsin Fair Dealership Law, the following information supersedes or supplements, as the case may be, the corresponding disclosures in the main body of the text of the California Closet Company, Inc. Wisconsin Franchise Disclosure Document.

Item 17, Additional Disclosure:

For Wisconsin Franchisees, ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of the Franchise Agreement or a related contract between Franchisor and Franchisee inconsistent with the Law.

Franchise Disclosure Document, Additional Disclosure:

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.
WISCONSIN ADDENDUM TO THE FRANCHISE AGREEMENT

This Amendment shall pertain to franchises sold in the State of Wisconsin and shall be for the purpose of complying with the Wisconsin Fair Dealership Law. Notwithstanding anything which may be contained in the body of the Franchise Agreement to be contrary, the agreements shall be amended as follows:

Ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of this Franchise Agreement or a related document between Franchisor and Franchisee inconsistent with the Law.

No statement, questionnaire, or acknowledgment signed or agreed to by a Franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the Franchisor. This provision supersedes any other term of any document executed in connection with the Franchised Business.

CALIFORNIA CLOSET COMPANY, INC.	**FRANCHISEE**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____
Date Signed:_____	Date Signed:_____

EXHIBIT I

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

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CALIFORNIA CLOSETS®

OPERATIONS MANUAL

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EXHIBIT J

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

STATE EFFECTIVE DATES

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

STATE	EFFECTIVE DATE
CALIFORNIA	Exempt
FLORIDA	Pending
HAWAII	Pending
ILLINOIS	Exempt
KENTUCKY	Effective (One Time Filing)
MARYLAND	Exempt
MICHIGAN	Effective
NEBRASKA	Effective (One Time Filing)
NEW YORK	Exempt
TEXAS	Effective (One Time Filing)
VIRGINIA	Exempt
WASHINGTON	Exempt

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT K

TO THE CALIFORNIA CLOSET COMPANY, INC. FRANCHISE DISCLOSURE DOCUMENT

RECEIPTS

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 California Closet Company, Inc. 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 and Rhode Island require 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 Agreement or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding Franchise Agreement or other agreement or the payment of any consideration, whichever occurs first.

If California Closet Company, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to the appropriate state agency listed in Exhibit G. California Closet Company, Inc. authorizes the respective state agencies identified on Exhibit G to receive service of process for it in the particular state.

The Franchisor is California Closet Company, Inc., located at 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023. Its telephone number is (877) 504-6027.

Issuance date: March 25, 2024.

I received a disclosure document dated March 25, 2024 that included the following Exhibits:

A-1 Audited Financial Statements	D Sample Nondisclosure Agreement
A-2 Guarantee of Performance	E Consent to Transfer of Right to Operate Franchised Business and Sale of Certain Assets
B-1 Franchise Agreement (Manufacturing and Showroom or Design Center) including Telephone Number Assignment Agreement and Power of Attorney and Guaranty and Assumption of Franchisee's Obligations)	F Franchisees as of December 31, 2023
	G List of State Agencies/Agents for Service of Process
B-2 Sample Release Language for Renewal of Franchise Agreement	H State-Specific Additional Disclosures
	I Table of Contents of Operations Manual
C Reserved	J State Effective Dates
	K Receipts

The franchise seller(s) for this offering is/are as follows: Hannah Zarkowskyj, April Broome, California Closet Company, Inc., 2001 W. Phelps Road, Suite 1, Phoenix, AZ 85023, (877) 504-6027.

Signature: _____

Printed Name: _____

Company Name: _____

Date: _____

Keep this copy for your records.

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.

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Signature: _____

Printed Name: _____

Company Name: _____

Date: _____

Sign, date and return to California Closet Company, Inc.