FRANCHISE DISCLOSURE DOCUMENT

CLASSY CLOSETS®

CHRLS Enterprises, Inc., an Arizona Corporation
1251 S. Nelson Drive
Chandler, Arizona 85226
Telephone: 480-967-2200
Facsimile: 480-377-2692
E-mail: sherwood.hamblin@classyclosets.com
www.classyclosets.com

You will operate a retail Franchise Business under the name Classy Closets® and sell Classy Closets brand manufactured components. The total investment necessary to begin operation of a Classy Closets business ranges from $2,300 to $165,800 for someone who has a storage component business, and from $47,900 to $259,500 for a start-up business. The total investment necessary to begin a start-up includes a pre-opening purchases ranging from $25,600 to $38,500 that must be paid to us or our affiliates. The total investment necessary if you have storage component business include pre-opening purchases ranging from $750 to $1,050 that must be paid to us or our affiliates.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the franchise administrator in our home office at the address and telephone number listed above.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read your entire contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

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

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

ISSUANCE DATE: August 1, 2018

STATE COVER PAGE

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

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

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

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION, ARBITRATION OR LITIGATION ONLY IN ARIZONA. OUT-OF-STATE MEDIATION, ARBITRATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO MEDIATE, ARBITRATE OR LITIGATE WITH US IN ARIZONA THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT ARIZONA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. IF A BUSINESS ENTITY IS BUYING THIS FRANCHISE EACH OWNER AND HIS/HER SPOUSE MUST PERSONALLY GUARANTEE ALL OBLIGATIONS OF THE FRANCHISE AGREEMENT THEREBY PLACING MARITAL AND PERSONAL ASSETS AT RISK.
4. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Effective Dates: See the next page for state effective dates.

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

STATE EFFECTIVE DATES

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

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

California	PENDING
Connecticut	March 5, 2008
Nebraska	March 22, 2006
Texas	January 19, 2006
Washington	PENDING

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ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, “we”, “us”, “our” and “Classy” mean CHRLS Enterprises, Inc. “You” means the person who is considering the franchise, and if a corporation, partnership, or other entity is considering the franchise, the term “you” includes this entity and its shareholders, partners, or other principals.

Corporate History

Classy is an Arizona corporation. It incorporated under the name CHRLS Enterprises, Inc. on November 22, 2004. Our principal place of business is, 1251 S. Nelson Drive, Chandler, Arizona 85226. We do business under the trade name Classy® Closets. We do not do business under any other name.

Our agents for service of process are disclosed in Exhibit K to this Disclosure Document.

Our Business

We are in the business of offering franchises for designing storage solutions ("Classy Closets Businesses" or "Classy Closets Business") using Classy Closets® brand manufactured components ("Classy Closets Products"). We have never offered franchises in any other lines of business. We also sell our Classy Closet Products through independent dealers that operate under their own name and may offer closet products manufactured by other third party companies. As of the date of this Disclosure Document we have 1 dealer in Wyoming and 1 dealer in Texas. We are not involved in any other business activities. We operate 1 businesses of the type being franchised. We began offering franchises in January, 2006.

Our Predecessors

We do not have any predecessors.

Our Parents

Classy has no parent entities.

Our Affiliates

We have three affiliates, Classy Etc., Inc., Classy Closets Etc., Inc. and SRD Properties, LLC.

Classy Etc. Inc. (“CEI”) was formed as an Arizona corporation in September 1994. CEI is the owner of the federally registered trademark shown on the cover of this Disclosure Document. CEI, CHRLS, and Classy Closets, Etc., Inc. have entered into license agreements for the use of this trademark (see Item 13). The principal business address of CEI is 1251 S. Nelson Drive, Chandler, Arizona 85226. CEI is not involved in any other business activities. CEI does not presently operate any businesses of the type being franchised.

Classy Closets Etc., Inc. (“CCEI”) is also an affiliate of Classy and was formed as an Arizona corporation in September 1988 ("CCEI"). CCEI contracts to have the Classy Closets Products manufactured and then sells them at wholesale to our authorized franchisees and dealers. It also sells some products other than the closet components that are marked with the "Classy Closets®" brand ("Branded Products"). CCEI has also developed the ordering, scheduling and design software that you may use. The principal business address of CCEI is 1251 S. Nelson Drive, Chandler, Arizona 85226. CCEI began operating its location in Tempe, Arizona, and now operates one location and has production facilities in Arizona. The CCEI location is similar to the type being franchised. As of the end of its last fiscal year, CCEI had two dealers in two states, selling Classy Closets Products and Branded Products under dealer agreements that are substantially different than our franchise program. See Item 20. Dealers who meet our qualifications are given the option to become franchisees. CCEI is not engaged in any business other than as stated above.

SRD Properties LLC (“SRD)” was formed as a limited liability company in October 2015. SRD owns the property where the Branded Products are manufactured. The principal business address of SRD is 1251 S. Nelson Drive, Chandler, Arizona 85226. SRD is not involved in any other business activities. SRD does not presently operate any businesses of the type being franchised. SRD does not offer any direct services to franchisees.

All dealers purchase Classy Closet Products and do not pay any ongoing fees. Most dealers use the Classy Closets® name in their business but some do not. Some dealers do not have any written agreement and have only paid CCEI a training fee. The specific terms of the existing written dealership agreements vary between dealers but the agreements usually require the purchase of Classy Closets Products, payment of an fee upon entering the dealer agreement, require CCEI to provide initial training, provide for a warranty on the products purchased, require liability insurance, are not transferable without approval, permit the dealer to terminate the agreement with thirty day’s notice, permit CCEI to terminate for failure to pay, breach of contract or actions damaging CCEI’s goodwill and require the dealer to stop using the CCEI’s trademarks upon termination. CCEI has the option but is not required to repurchase a dealer’s inventory upon termination. CCEI is not engaged in any business other than as stated above.

We have no other affiliates that have conducted the type of business to be conducted by franchisees. Neither of our affiliates has ever offered franchises in any line of business.

Our Franchises

Our franchises will design and sell storage solutions using Classy Closets Products and other Branded Products. You may also manufacture Classy Closets Products according to our specifications. As a franchisee, you will provide these services to customers within your specified exclusive territory. Your competition will include other local and national businesses offering similar storage organization services.

We may grant you the right to open additional Classy Closets Businesses under a Multi-Store Amendment to your Franchise Agreement as provided in Exhibit D. If you sign a Multi-Store Amendment, then you will open the number of businesses in the general locations and by the times specified in the development schedule in the Multi-Store Amendment to your Franchise Agreement. You will pay a development fee to us. See Items 5, 8, 11 and 12.

If you do not own or buy an existing business, your franchise will be a "start-up" franchise and you will have to develop your own business. If you already operate an existing storage component business and you wish to convert your existing business to a Classy Closets franchise by signing a Franchise Agreement and a Dealer Conversion Amendment, your franchise will be a "conversion" franchise ("Conversion Franchisee") and we may waive payment of the initial franchise fee. See the Dealer Conversion Amendment at Exhibit N.

As an existing franchisee, you may also request an additional franchise for a different territory. If you are in good standing and we approve your request, you will sign a current standard form of Franchise Agreement for the new territory. There is an initial franchise fee for additional franchises. See Item 5.

Competition

Your primary competition will be other businesses selling closet organization products. You will also compete with businesses that offer storage organization products. Some competitors not affiliated with us may use the words "classy" or "closets" in their business names and to describe their products. You may also compete for customers against other Classy Closets franchisees.

Regulations

Your Classy Closets Business will be subject to all of the federal, state and local laws that apply to businesses generally, including minimum-age and minimum-wage laws and occupational health and safety laws. These laws may vary from place to place. You must obtain all necessary permits, certificates and licenses for the operation of your Classy Closets Business. You should investigate these matters and consult with local authorities and your attorney about them.

ITEM 2
BUSINESS EXPERIENCE

Director, Chief Executive Officer and President: Duane Layton Standage

Mr. Standage has served as a Director, Chief Executive Officer and President of CHRLS Enterprises, Inc., since its formation in November 2004. He has been a Director and President of Classy Etc., Inc., and Classy Closets Etc., Inc., since September 1994.

Director and Vice President: Robert Dean LeSueur

Mr. LeSueur has served as Director and Vice President of CHRLS Enterprises, Inc., since its formation in November 2004. He has been a Director and Vice-President of Classy Etc., Inc., and Classy Closets Etc., Inc., since September 1994.

Director and Secretary: Sherwood Graham Hamblin

Mr. Hamblin has served as Director and Secretary of CHRLS Enterprises, Inc., since its formation in November 2004. He has been a Director and Secretary of Classy Closets Etc., Inc., since September 1994. From August 1992 to January 1996, he served as Classy Closets Etc., Inc.'s Director of Dealer Relations/Purchasing.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

ITEM 5
INITIAL FEES

Franchise Fee

You must pay us an initial lump sum franchise fee based on the approximate population in your territory when you sign your Franchise Agreement. This fee is not refundable under any circumstances. We use this money for our general operating expenses.

Estimated Population Range (Note 1)	Franchise Fee	Minimum Monthly Royalty Fee (Note 2)	Standard Royalty Fee (Note 2)
0 – 200,000	$10,000	$500	5%
200,001 – 500,000	$15,000	$750	5%
500,001 – 750,000	$20,000	$1,000	5%
750,001 – 1,000,000	$25,000	$1,250	5%
Populations over 1,000,001 (Note 3)	$25,000 plus the franchise fee stated above for the additional population increase over 1,000,001	$1,250 plus the royalty fee stated above for the additional population increase over 1,000,001	5%

Notes:

1. The population in your territory will be estimated based on the most recent census data.

2. The minimum royalty is due for the first twelve full months that you are a new franchisee. After the first twelve months, if you are a new franchisee, you will pay either the minimum royalty fee or a standard royalty fee of 5% of your average gross sales, whichever is higher. See Item 6. If you are a conversion Franchisee you will pay the 5% standard royalty fee.

3. For example, a territory with a population of 1,200,000 will have an initial franchise fee of $35,000 ($25,000 + the initial fee of $10,000 for the additional 200,000 population range) and will have a minimum royalty fee of $1,750 ($1,250 + the royalty fee of $500 for the additional 200,000 population range).

If you are an existing storage component business converting to a CCEI retail franchise program, the initial fee may be waived in our sole discretion. Otherwise, initial franchise fees are uniform for all other franchises currently being offered by us. The initial franchise fees are not reduced for additional Classy Closets Businesses opened under a Multi-Store Amendment.

Equipment, Supplies and Inventory Purchases

You will be required to purchase equipment, supplies and inventory before your Classy Closets Business opens. See Item 7. If you are a new franchisee, then you must purchase one piece of equipment (a mobile workshop) from CCEI. You may, at your option, purchase certain inventory items from CCEI before opening or you may elect to wait until your first customer order. See Item 8. The estimated amount you will pay CCEI for these pre-opening purchases ranges from $25,000 (if you elect only to purchase the required equipment from CCEI) to $30,000. You also have the option to purchase a license to access computer aided design ("CAD") software through a server for an initial fee that is currently $750 with a $300 annual maintenance fee. This software is owned by CCEI. If you wish, you may also purchase marketing materials from CCEI. We estimate that your pre-opening purchases of these materials could range from $0 to $300. If you are a Conversion Franchisee, then we do not anticipate that you will have any equipment, supplies or inventory purchases before you operate as a franchisee but you will need to purchase a license for the CAD software and additional marketing materials. These amounts are not refundable under any circumstances.

Training

Your design manager and installation manger must complete our training program before commencing business. We do not charge tuition for this training for the first five or fewer people who take the training together. For each additional person trained, we will charge $50 per person per day for our two-week initial training program. The estimated amount you may pay for additional people to attend initial training is nothing, if you bring five or fewer people, to $600, if you bring a sixth person. If you sign a Multi-Store Amendment, we will provide initial training for your design manager and your installation manager but these individuals may request to be excused from our initial training program. We may also waive training requirements for the current design manager and installation manager of a Conversion Franchisee. See Item 11. If you are a Conversion Franchisee, then we do not anticipate that you will have any pre-opening training expenses.

Multi-Store Amendment

If you wish to develop and operate more than one Classy Closets Business in more than one area, and if you qualify, you and Classy may sign a Multi-Store Amendment to the Franchise Agreement permitting you to develop a specified number of additional Classy Closets Businesses, in territories you request, subject to our written approval. A copy of the Multi-Store Amendment is attached as Exhibit D to this Disclosure Document. A separate Franchise Agreement must be signed for each Classy Closets Business. Under the Multi-Store Amendment, you will pay us a development fee equal to 50% of the initial franchise fee for each Classy Closets Business to be operated pursuant to the Amendment (excluding your first Classy Closets Business) upon signing the Multi-Store Amendment. This fee is not refundable but is credited fully against the initial franchise fee for each Classy Closets Business as it is developed (except the first Classy Closets Business), reducing the initial franchise fee for each future Classy Closets Business by 50%. See Item 12.

ITEM 6
OTHER FEES

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
Royalties FA § 4.2 DCA § B (Note 3)	You will pay a fixed nonrefundable minimum monthly royalty fee based on the population size in the territory for the first twelve full months; thereafter, the greater of the minimum royalty fee (subject to adjustment for inflation) or 5% of your monthly average gross sales for the prior twelve months.	On or before the 10th day of the following month	Gross sales means total revenues from all goods and services sold and/or installed for cash or credit, less sales taxes. The minimum monthly royalty fee is prorated for any partial first month if you are a new franchisee.
Software License Fee FA § 8	Optional computer added design software is currently available for a $500 initial fee and a $300 annual fee	Initial fee in advance; annual fee payable within 30 days after bill date	The proprietary computer software that you must use to order Classy Closets Products and schedule installations will be provided at no charge. See Items 8 and 11.
Advertising Cooperative Assessments FA §§ 4.4.2 & 14.4.1	Established by your Advertising Cooperative	Set by your Advertising Cooperative	No advertising cooperatives have been formed; if any are formed then payments will be made to the Cooperative, but we may collect any unpaid assessments on behalf of the Cooperative. (Note 4)
On-Site Assistance Fee	Usual and customary daily rate (currently $450 per day per person) plus transportation costs;	As incurred	At your request, we may provide assistance to you at your location or at a trade show or with a certain job. We will pay our meals and lodging. You will pay our daily rate and our transportation costs such as gas, car rental and airfare.
Training FA § 11.1.2	No tuition is charged by us for the first five or fewer people who attend the initial training program at the same time	In advance	Additional people may also attend the initial training program at the same time or thereafter for $50 per person per day, subject to space availability. See Item 1. (Note 5)
Unapproved Marketing Fee FA § 4.6	Currently estimated to be $200	Upon notice	Imposed if you violate our advertising requirements. The amount of fee will be stated in the Manual.

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
Branding Fund Fee FA § 4.5	Up to 4% of your Gross Sales	Monthly, with Royalties	Not currently being imposed. When imposed, a fee of 2% is anticipated.
Noncompliance Fee FA § 4.7	Currently estimated to be $200	Upon notice	Imposed if you fail to adhere to our standards.
Vendor Review Fee FA § 6.2.2	Currently estimated to be $100 - $250	In advance	The amount of fee will be based upon the time spent to evaluate a supplier or a change in specifications.
Assignment Fee FA § 13.1.7	$2,500	Upon approval of assignment	The amount of the assignment fee is subject to adjustment for inflation.
Renewal Fee FA § 9.2.3	$2,500	Upon renewal	The amount of the renewal fee shall be subject to adjustment for inflation.
Delinquent Interest FA § 5.3	1.5% per month, but not to exceed the maximum commercial usury rate allowed by law	Beginning on date of delinquency	Payable on any delinquent amount you owe us.
Indemnification FA § 10.10	Amount of our liabilities	As incurred	Covers claims and liabilities incurred by us relating to your business.
Attorneys' Fees FA §§ 10.10 15.8	Amount incurred by us	As incurred	Attorneys' fees and costs for indemnification or enforcing your Franchise Agreement.
Taxes FA § 5.6	Amount of taxes imposed on your payments to us when we have no presence in your jurisdiction	On demand	
Guaranty FA §§ 5.4, 13.2.2, FA Ex 2	All your obligations	On demand	Your owners and their spouses must personally guaranty your obligations to us.

__Notes__:

1. "FA" means the Franchise Agreement attached as Exhibit C to this Disclosure Document. "DCA" means the Dealer Conversion Amendment attached as Exhibit N to this Disclosure Document. The more detailed provisions of your Franchise Agreement and Dealer Conversion Amendment (if applicable) on each of these subjects determine your obligations. Your initial franchise fee and other initial payments to us and our affiliates before you commence business are described in Item 5.

2. Except where otherwise noted, the fees and charges shown in this chart are all payments you must make to us and are not optional. They are not refundable. See Item 8 for optional services and goods you may obtain from us and our affiliates.

3. The retail stores operated by CCEI are not obligated to pay royalty fees even though they currently do and any future affiliate-owned or company stores may or may not pay royalty fees. Retail stores that were formerly operated by CCEI and were sold as a franchise may pay a different royalty fee. Unless otherwise noted, the amount of royalty fees is uniform for all franchisees currently being offered, although certain existing franchisees have a different royalty fee structure. If you are a new franchisee, for the first partial month, if any, and the first full twelve months after signing the Franchise Agreement you will pay us a fixed nonrefundable monthly royalty fee ("Minimum Royalty Fee") based on the population in your territory. The Minimum Royalty Fee will be prorated for the first month. The Minimum Royalty Fee is subject to adjustment for inflation. After twelve full months have passed, you will pay us a nonrefundable monthly royalty fee of either (a) 5% of your average monthly Gross Sales for the prior twelve-month period ("Standard Royalty Fee") or (b) the Minimum Royalty Fee, whichever is higher, in a fixed monthly payment, payable for each month on or before the 10th day of the following month through December of each year. If you are a Conversion Franchisee, you will pay us the Standard Royalty Fee (i.e. a nonrefundable monthly royalty fee of 5% of your average monthly Gross Sales for the prior twelve-month period) in a fixed monthly payment, payable for each month on or before the 10th day of the following month through December of each year. In January of each year, we will recalculate the Standard Royalty Fee for the prior twelve months. At our option, we may round the Standard Royalty Fee down. We may require that you pay royalties by electronic funds transfer if you are delinquent in making payments to us more than once in a six-month period, if you pay by a check without sufficient funds in your account or if we are requiring all franchisees to pay by electronic funds transfer.

   New Franchisee Example. *Your territory has a population of approximately 200,000 according to the 2010 Census when you sign your Franchise Agreement on August 15, 2017. You owe a prorated royalty fee on September 10, 2017 for the prior partial month of August 2017. Assuming that your Minimum Royalty Fee is $500, you will pay us $500 a month beginning with September 2017 (payable on October 10, 2017 and the 10th of each month thereafter) through August 2018 when you will pay us $500 on September 10, 2018. In September 2018, we will calculate your average monthly Gross Sales for the prior twelve-month period of September 2017 to August 2018 and multiply that amount times 5% to calculate the Standard Royalty Fee. You would pay either the Standard Royalty Fee or the Minimum Royalty Fee, whichever is higher, in the same fixed amount for each month, beginning September 2018 (due October 10, 2018) and continuing through December 2018 (due on the 10th of each following month until January 10, 2019). In January 2019, we would recalculate the Standard Royalty Fee based on the prior twelve-month period from January 2018 through December 2018. You would pay either the Standard Royalty Fee or the Minimum Royalty Fee, whichever is higher, in the same fixed amount for each month, beginning January 2019 (due February 10, 2019) and continuing through December 2019 (due on the 10th of each month until January 10, 2020).*

   Conversion Franchisee Example. *Your territory has a population of approximately 200,000 according to the 2010 Census when you sign your Franchise Agreement on August 15, 2017. In August 2017, Classy will calculate your average monthly Gross Sales for the prior twelve-month period of August 2016 to July 2017 and multiply that amount times 5% to calculate the Standard Royalty Fee. You would pay the Standard Royalty Fee, in the same fixed amount for each month, beginning August 2017 (due September 10, 2017) and continuing through December 2017 (due on the 10th of each following month until January 10, 2018). In January 2018, Classy would recalculate the Standard Royalty Fee based on the prior twelve-month period from January 2017 through December 2017. You would pay the Standard Royalty Fee in the same fixed amount for each month, beginning January 2018 (due February 10, 2018) and continuing through December 2018 (due on the 10th of each month until January 10, 2019).*

4. We have not yet formed any branding cooperatives but may do so in the future. We or one of our affiliates, as an operator of Classy Closets businesses or a member of an branding cooperative, may be asked by the cooperative to collect and administer the cooperative's advertising assessments. The advertising activities and the amount of assessments to be paid for programs and operations are determined separately by majority vote, with each Classy Closets business in the cooperative (including any stores operated by us or our affiliates) having one vote. See Item 11. As there are no branding cooperatives formed as of the date of this Disclosure Document, we cannot estimate the amount of the advertising assessments.

5. If you enter into a Multi-Store Amendment, we will provide the same initial training for the design manager and the installation manager for each of your Classy Closets Businesses, but the design manager and the installation manger may request to be excused from our initial training program. If you are a Conversion Franchisee, then we may waive the initial training requirement for your current design manager and installation manager. We do not at this time offer refresher or additional training programs but we may do so in the future. If we do so, these training programs may expand upon the topics covered in our initial training program. See Item 11. These programs may vary in length but we currently estimate that the programs will not exceed five days and probably will be held in Chandler, Arizona. While we might offer optional refresher or additional training programs several times a year, we do not anticipate requiring mandatory programs more than once every year, if at all. We may charge a reasonable tuition for any refresher or additional training programs we might provide but we currently estimate that the tuition will not exceed $500 per person per program. You must pay for your own expenses and for those of your employees who attend any of our training programs.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT – START-UP BUSINESS (Note 1)					
Type of Expenditure	Amount		When Payable	Method of Payment (Note 2)	To Whom Payment is to be Made
PRE-OPENING:					
Initial Fee (Note 3)	$10,000	$100,000	Upon signing Franchise Agreement	Lump sum	Franchisor
Travel (Note 4)	$50	$500	As incurred	Lump sums	Airlines, Gas Companies
Living Expenses While Training (Note 5)	$2,100	$4,000	During training	As incurred	Hotels & Restaurants
Real Estate (Note 6)	$2,000	$6,000	Usually monthly	Lump sums	Landlord or Seller
Leasehold Improvements (Note 7)	$2,500	$10,000	During and upon completion of construction	Lump sums	Contractors
Signage (Note 8)	$500	$10,000	As incurred	Lump sum	Vendor
Equipment (Note 9)	$25,000	$30,000	As incurred	Lump sums	Vendors and/or CCEI
Inventory (Note 10)	$500	$8,000	As incurred	Lump sums	Vendors and/or CCEI
Supplies (Note 11)	$100	$500	As insured	Lump sums	Vendors and/or CCEI
Utility Deposits (Note 12)	$100	$2,000	As incurred	Lump sums	Utility Companies
Insurance (Note 13)	$700	$5,500	Semi-annually	Lump sums	Insurance Carriers
Professional Services (Note 14)	$250	$1,000	As incurred	Lump sums	Attorney/ Accountant
Licenses & Permits (Note 15)	$100	$1,000	As incurred	Lump sums	Government Authorities
Advertising (Note 16)	$2,000	$61,000	As incurred	Lump sums & monthly	Telephone Company and Media
TOTALS (Note 18)	$47,900	$259,500			

YOUR ESTIMATED INITIAL INVESTMENT – CONVERSION BUSINESS (Note 1)					
Type of Expenditure	Amount		When Payable	Method of Payment (Note 2)	To Whom Payment is to be Made
PRE-OPENING:					
Initial Fee (Note 3)	$0	$100,000	Upon signing Franchise Agreement	Lump sum	Franchisor
Travel (Note 4)	$0	$500	As incurred	Lump sums	Airlines, Gas Companies
Living Expenses While Training (Note 5)	$0	$4,000	During training	As incurred	Hotels & Restaurants
Real Estate (Note 6)	$0	$0	Usually monthly	Lump sums	Landlord or Seller
Leasehold Improvements (Note 7)	$0	$0	During and upon completion of construction	Lump sums	Contractors
Signage (Note 8)	$0	$0	As incurred	Lump sum	Vendor
Equipment (Note 9)	$300	$300	As incurred	Lump sums	Vendors and/or CCEI
Inventory (Note 10)	$0	$0	As incurred	Lump sums	Vendors and/or CCEI
Supplies (Note 11)	$0	$0	As insured	Lump sums	Vendors and/or CCEI
Utility Deposits (Note 12)	$0	$0	As incurred	Lump sums	Utility Companies
Insurance (Note 13)	$0	$0	Semi-annually	Lump sums	Insurance Carriers
Professional Services (Note 14)	$0	$0	As incurred	Lump sums	Attorney/ Accountant
Licenses & Permits (Note 15)	$0	$0	As incurred	Lump sums	Government Authorities
Advertising (Note 16)	$2,000	$61,000	As incurred	Lump sums & monthly	Telephone Company and Media
ADDITIONAL OPERATING FUNDS FOR 3 MONTHS (Note 17)	$0	$0	As incurred		
TOTALS (Note 18)	$2,300	$165,800			
FOR 3 MONTHS (Note 17)					
TOTALS (Note 18)	$47,900	$259,500			

All amounts paid to us are non-refundable. Third-party suppliers will determine whether payments to them are refundable. These estimated initial investments do not include: real estate purchase, debt service, lease payments or your salary.

Notes:

1. The costs to convert an existing storage component business to a Classy Closets franchise are much lower than the costs to start an entirely new business.

2. Financing may be available from an independent source for the establishment and operation of your Classy Closets location. See Item 10. Neither we, nor our affiliates, offer any other direct or indirect financing to

franchisees for any item. Payments for inventory, equipment and supplies purchased from us, or our affiliates, are due upon then current terms, but in no event longer than 30 days.

3. The initial franchise fee is based on the estimated population for your territory. The low range assumes an estimated population up to 200,000. The high ranges assume a population between 4,000,000 and 5,000,000. We may waive this initial franchise fee for any affiliate owned business or Conversion Franchisee. If we agree that you will open a Classy Closets Business in more than one territory, you will incur additional initial fees. See Item 5.

4. The low estimated travel expenses are based on one person living in Arizona and driving to training. The high estimate is based on one person flying to Phoenix, Arizona. Transportation expenses may vary depending upon advance scheduling, your location, the number of people traveling and the number of round trips made during the course of training. If you are a Conversion Franchisee, then we anticipate that we will waive the initial training requirement for your current design manager and installation manager.

5. This training estimate is for food and lodging expenses for one person for approximately two weeks in Phoenix, Arizona. No estimate is included for car rentals or other personal expenses. The estimates should be increased if more than one person will be attending training.

6. We estimate that a Conversion Franchisee will not have any additional real estate expenses due to the conversion. You may lease or purchase the land and building for your Classy Closets Business. Typical locations are part of existing office and business centers. You may have a customer showroom but are not required to do so. If you have showroom, then the location, layout, appearance, signage and product displays are subject to our prior approval. If you are a Conversion Franchisee, then only alterations or new showrooms are subject to our prior approval. A Classy Closets Business typically has 1,000 to 2,500 square feet. **Rent can vary significantly depending on factors such as size, condition, location of the property, local market conditions and tax rates.** Based on the experience of its affiliates, Classy Closets estimates that rent may range from $12,000 to $36,000 per year (assuming there is no percentage rent) and that security deposits (which may be partially or wholly refundable) may range from $1,000 to $3,000. Because individual cases vary so widely, no estimates for real estate purchase payments are included in the chart of your estimated initial investment. See Items 8 and 10.

7. We estimate that a Conversion Franchisee will not have any additional leasehold improvements due to the conversion. The low estimate for a start-up business assumes the remodeling and build out of an existing building with an 800-square-foot warehouse and a 200 square foot office/display area for a total of 1,000 square feet. The high estimate is for a build out of an existing building with a 2,400-square-foot warehouse with a 600-square-foot office/display area for a total of 3,000 square feet. The build out costs for the construction and build out of a free-standing building such as our current warehouse, office and showroom building would be approximately $650,000. If the leasehold improvements or any other portion of your estimated initial investment are financed, the estimated initial investment will be reduced, but your working capital needs will increase to cover debt service on the loan. See note 17 below.

8. We estimate that a Conversion Franchisee will not have any additional signage expenses due to the conversion. The estimate for a start-up business includes the costs of interior and exterior Classy Closets signage and the costs of installation. See Item 8.

9. We estimate that a Conversion Franchisee will not have any additional equipment expenses due to the conversion other than payment for the software license fee. As a start-up franchise, you must have a computer system. You will be provided access to proprietary and other specified software but you must purchase a terminal license fee from Microsoft®. The software to order Classy Closets Products and schedule installations is provided at no charge but the option design software is provided for a fee. This estimate includes approximately $3,000 to $8,000 for computer hardware with $300 for a Microsoft® terminal license fee and a range of $0 to $500 in initial optional software fees. See Items 5 and 11. We estimate that the initial deposits for leasing equipment would range from $500 to $1,500. The estimates include installation and $750 to $3,000 for shipping costs. This estimate assumes that you will lease a truck. If you purchased a truck immediately, then you could pay up to $40,000 for a truck to use in your business. No debt service is included for any financing you may receive. You must purchase one piece of equipment from our affiliate and you may elect to purchase certain available equipment from our affiliate. You may elect to purchase marketing materials from us. See Items 5 and 8. These costs are included in this estimate. If you lease or finance your equipment, the estimated initial investment will be reduced but your working capital needs will increase to cover the lease payments. See note 17 below.

10. You may either purchase Classy Closets Products from CCEI or manufacturer Classy Closets Products according to our specifications. Classy estimates that you will purchase your inventory on a job-to-job basis but you may elect to purchase certain inventory items prior to opening your business. Your inventory will also include items from other approved vendors. See Items 5 and 8.

11. You may elect to purchase available supplies from CCEI. See Items 5 and 8.

12. The utility estimate assumes no additional utility deposits for a Conversion Franchisee; the estimate does include deposits for water, electricity, gas, telephone and other utilities for a start-up business. See note 6 above regarding real estate lease security deposits.

13. The insurance estimate is for an annual premium for "all risks" coverage on all real and personal property at 100% of replacement cost and comprehensive general liability coverage, with a combined single limit of $1,000,000 for personal injury and property damage with a $10,000 deductible. The estimated cost range also includes a one-month's automobile insurance premium of $200 for one truck as the low estimate and one month's automobile insurance premium of $1,000 for five trucks as the high estimate, with both estimates assuming liability coverage of $1,000,000, medical coverage of $5,000, underinsured/uninsured coverage of $1,000,000 and a $1,000 deductible. Premiums for insurance other than automobile, property and liability are not included.

14. Obtaining legal and accounting services is not mandatory, but we recommend that you obtain professional advice in the course of verifying these estimated initial investment estimates locally, entering into the Franchise Agreement, setting up your Classy Closets Business and complying with legal requirements.

15. The license and permits estimate assumes that no additional licenses or permits are required for a Conversion Franchisee.

16. The advertising estimate includes grand opening advertising of $500 to $15,000, an estimated $1,000 to $45,000 for the first month of Internet Marketing and $500 to $1,000 in cards and other literature. We recommend promoting your business through a variety of methods including customer referrals as well as advertising, although we do not require that you spend a certain amount on your initial and ongoing advertising.

17. The estimate for additional operating funds includes funds to cover possible operating shortfalls and cash flow shortages during your first three months of business. We do not imply or guarantee that you will “break even” by any particular time. The high estimate inclu*d*es an estimated salary for one employee and associated payroll taxes (at 7% rates for state taxes), but a salary for you or a manager is not included in the low or high estimate. Estimated royalty fees, advertising costs and support fees are also considered. Utility expenses can vary significantly depending on location and season and have not been considered. No real estate mortgage payments are considered. See note 6 above. No debt service is included for any financing you may obtain. See note 8 above.

18. These numbers are only estimates of the range of initial start-up expenses you may incur. The actual amount of additional funds you will need depends on a variety of factors, including the location of your business, whether you extend credit to your customers, the time of year when you start your business, your management skills, economic conditions, competition in your area and other factors. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

ITEM 8
RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

<u>Required Purchases from Classy and CCEI</u>

You must purchase a mobile workshop from CCEI. The mobile workshop is currently a trailer with tools needed to service customers. Certain products required for a Classy Closets installation may only be available from CCEI. You must also pay fees for any initial training for a new design manager or installation manager to us. See Item 6. There are no other goods or services that you must purchase from us or our affiliates to establish or operate your business.

Optional Purchases from Classy and Its Affiliates

Inventory. You may elect to purchase Classy Closets Products from either CCEI or from Classy's other authorized manufacturers in accordance with our specifications. Types of inventory products include wood veneers, melamine, convenience hardware, decorative hardware, connecting hardware, raised panel and RTF (rigid thermo foil) doors, drawer slides, hinges, glues, edgebanding and jewelry inserts. All of our officers own an interest in CCEI.

Approved Vendors

You may elect to purchase products from our authorized manufacturers or to manufacture certain closet materials that you will purchase from authorized vendors and install as Classy Closets Products. Authorized vendors currently include suppliers of wood veneers, melamine, convenience hardware, decorative hardware, connecting hardware, raised panel and RTF doors, drawer slides, hinges, glues, edgebanding and jewelry inserts but other types of materials may be included in the future. A list of approved vendors that meet our standards and specifications for products and supplies related to the operation of the Classy Closets Business will be included in the Manual.

Negotiated Vendor Arrangements

We, or our affiliates, frequently negotiate purchasing arrangements or price terms with suppliers for the benefit of franchisees on wood veneers, melamine, convenience hardware, decorative hardware, connecting hardware, raised panel and RTF doors, drawer slides, hinges, glues, edgebanding, jewelry inserts and printed materials. We may, in the future, negotiate one or more agreements with other vendors of equipment, inventory and supplies. We do not provide any material benefits to you, for example any renewal benefits or granting additional franchises, based on your purchase of particular products or services or use of particular suppliers.

Vendor Payments

We receive rebates from the vendors discussed above of 0-18% of the amount of purchases from franchises and dealers. We may receive other rebates in the future. We may use these rebates to offset the advertising development costs but we have no obligation to do so. See Item 11. Except for our affiliate, none of our officers owns any interest in any of our suppliers.

Purchases in Accordance with Specifications.

Real Estate. You are not required to have a Classy Closets showroom in your territory, but if you choose to open one or more showrooms, then you must locate an appropriate site for each showroom. The location, layout and appearance, as well as the signage and product displays, are subject to our prior approval which will not be unreasonably withheld. If you are a Conversion Franchisee with an existing showroom, then only alterations to your existing showroom or your new showrooms are subject to our prior approval. See Item 11.

Personal Property. As stated above, if you choose to operate one or more showrooms, then your signage and product displays are subject to our prior approval which we will not unreasonably withhold. You must lease or purchase certain initial equipment and supplies, including a computer, computer printer, telephone answering machine, copier and fax machine, all in accordance with specifications provided in the Manual. You may purchase your computer hardware from any vendor, so long as it meets our specifications. You must use at least one late model white van or truck that is in suitable condition, as may be further stated in the

Manual, and with an appropriately maintained exterior, so as to project a favorable image of a Classy Closets Business and which has signage that meets our specifications. If we determine, in our sole discretion, that your vehicle does not project a positive image of a Classy Closets Business or meet the standards in the Manual, we may require you to replace the vehicle. In the event we notify you that you must replace your vehicle, you will have 30 days to obtain a replacement.

Services. You must obtain a new telephone number to be used as the main phone number on any website. This would also be the main number calls are transferred to from other tracking numbers. If you are a Conversion Franchisee, then you are not required to obtain a new telephone number for promotion of your business. All your advertising is subject to our prior written approval and, at your option, you may obtain other sources of advertising. You must submit a copy of proposed advertising to us for approval at least five days before using it. Our failure to respond within five days is deemed to be our approval. See Item 11. You must comply with our accounting and record keeping standards as specified in the Manual.

Insurance. You must maintain an umbrella policy with "all risks" coverage on all real and personal property, comprehensive general liability coverage, employers' liability coverage and automobile insurance, with limits for personal injury and property damage as stated in our Manual. The insurance must name us as an additional insured from insurance companies rated A or better by Best's or otherwise acceptable to us.

We do not establish specifications for any other goods or services you purchase to establish or operate your Classy Closets Business.

Manual and Changes to Specifications

We will loan you one copy of our Manual at the beginning of your initial training. We may make periodic revisions to the Manual by providing copies of changes to you, and you must comply with all these changes. See Items 11 and 14.

We will consider any request for the modification of specifications on equipment, supplies or inventory, or for the approval of a specific vendor. You must submit the forms as stated in our Manual. At a minimum, you must submit a written request, state the reason for the modification and provide sufficient technical data to enable us to determine if the item meets specifications. We reserve the right to perform these tests as we deem necessary to determine if the requested change is acceptable. We may charge a fee for this evaluation. See Item 6. We will notify you of our decision within a reasonable time after receipt of your request. Our review is normally completed within 21 days. If approved, you may start using the modified specifications or your supplier will become a designated supplier from whom you may purchase the specified goods and services.

Revenues of Classy and its Affiliates from Sales

In their most recent fiscal year, Classy and its affiliates had the following revenues from sales and leases to franchisees and dealers:

Company (Note 1)	**Type of Goods and Services Sold/Leased**	**Gross Revenues**	**Total Revenues of Company**	**Revenues as a Percentage of Total Revenues**
Classy Closets Etc., Inc. (Note 2)	Inventory Software/Marketing	$649,316	$16,716,027	3.8%
CHRLS Enterprises, Inc. ("Classy")	New Manager Training	$0	$538,092	0%

Notes:

1. Based on the unaudited financial statements of Classy Closets Etc. Inc. as of December 31, 2017 and CHRLS Enterprises, Inc.'s audited financial statements as of December 31, 2017.

2. Classy Closets Etc., Inc. did not have any revenues for signs, equipment and supplies.

Percentages of Franchisee Purchases

We estimate that the cost of the goods and services you will purchase from us and our affiliates, and from the other approved suppliers and in accordance with our specifications, will be approximately the following percentages of your total purchases in connection with the establishment of your business and of your total annual purchases thereafter in connection with the on-going operation of your business:

Estimated Percentages of Franchisee Purchases	**Percent of Total Purchases in Connection with the Establishment of Your Business**	**Percent of Total Annual Purchases in Connection with the On-Going Operation of Your Business**
Required Purchases from us and our Affiliates (Note 1)	5%	77%
Optional Purchases from us and our Affiliates (Note 2)	9%	0%
Purchases from Approved Suppliers (Note 1)	2%	16%
Purchases in Accordance with our Specifications (Note 2)	12%	5%
Total Purchases in All 4 Categories Above	28%	98%

Notes:

1. For the purposes of this chart, we have assumed that you are purchasing the majority of your Classy Closets Products from CCEI. If you choose to manufacture certain products, then the percentage of required purchases from CCEI will decrease and the percentage of purchases from approved suppliers will increase.

2. If you do not make these optional purchases from us or our affiliates, the percentage for optional purchases will be reduced and the percentage for purchases in accordance with our specifications will be increased correspondingly.

Purchasing Cooperatives

There are no purchasing or distribution cooperatives for the purchase of goods or services relating to your business, except for marketing area branding cooperatives for joint advertising and educational and promotional programs, which may be established in your marketing area as described in Item 11.

Negotiated Prices

We may negotiate purchase arrangements with suppliers (including price terms), for the benefit of the franchise system. We do not provide material benefits to you (for example, renewal or granting additional franchises) based on your purchase of particular products/services or use of particular suppliers.

Multi-Store Amendment

All of the restrictions on sources of products and services in this Item 8 apply to all of the locations opened under a Multi-Store Amendment.

ITEM 9
FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Item in Disclosure Document
a. Site selection and acquisition/lease	FA §§ 2.1, 3.3; DCA § E	Items 11, 12
b. Pre-opening purchases/leases	FA §§ 3, 6, 8.9.1, 10.4.2	Items 5, 6, 7, 8, 11
c. Site development and other pre-opening requirements	FA § 6, 10.3, 10.4.2; DCA § E	Items 7, 11
d. Initial and ongoing training	FA §§ 11.1, 11.2, 11.3; MSA § 2.3.2(c); DCA § G	Items 6, 7, 11
e. Opening	FA § 1.3; MSA § 2.1; DCA § D	Items 11, 12
f. Fees	FA §§ 4.1, 4.2, 4.5, 4.6, 4.7, 5.3, 5.4, 5.5, 6.2.1, 9.2.3, 10.7, 11.1.2, 13.1.4, 13.1.7, 15.8; Ex. 1, MSA § 3; DCA §§ A, B	Items 5, 6, 7, 8, 10
g. Compliance with standards and policies/Operations Manual	FA §§ 1.2, 3.2, 6.2, 7.1, 7.3, 8.1, 8.2, 8.3, 8.7, 10.1, 10.2, 10.3.3, 10.7, 10.8, 12.2, 12.4.2	Items 8, 11, 14
h. Trademarks and proprietary information	FA §§ 1.2, 12.1.1, 12.4.2; Ex. 3	Items 13, 14
i. Restrictions on products/services offered	FA § 2.1, 6; Ex. 1	Items 12, 13, 16
j. Warranty and customer service requirements	FA §§ 7, 8.5, 10.1	Items 12, 13, 16

Obligation	Section in Agreement	Item in Disclosure Document
k. Territorial development and sales quotas	FA §§ 2.3.2, 9.2.4, 10.4, 12.6.1; Ex. 1; MSA § 2.1	Items 1, 11, 12
l. Ongoing product/service purchases	FA §§ 6, 10.7	Items 5, 6, 8, 11
m. Maintenance, appearance and remodeling requirements	FA §§ 3.4, 9.2.2, 12.3.2; DCA § E	Items 7, 11
n. Insurance	FA § 10.7	Items 6, 8
o. Advertising	FA §§ 4.4, 7.3, 10.4.3, 10.4.4, 11.4, 12.4.2, 14.4.2; DCA § F	Items 7, 8, 11
p. Indemnification	FA § 10.10	Items 6, 13, 14
q. Owner's participation/ management/staffing	FA § 10.3	Items 7, 11, 15
r. Records/reports	FA §§ 4.3, 5.7, 8.6, 10.8, 12.1.1, 14.4.3; Ex. 3	Items 6, 11
s. Inspections/audits	FA §§ 6.2, 10.9, 12.3.1	Items 6, 11
t. Transfer	FA §§ 12.8, 13	Items 6, 17
u. Renewal	FA §§ 9.2, 9.3, 14.4	Item 17
v. Post-termination obligations	FA §§ 14.4, 14.5	Item 17
w. Non-competition covenants	FA §§ 11.1.4, 12.6, 12.10; Ex. 3	Items 14, 17
x. Dispute resolution	FA § 15	Item 17
y. Guaranties	FA §§ 5.4, 13.2.2; Ex. 2	Item 17

ITEM 10
FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease or obligation. Payments for any signs, equipment and supplies you may purchase from our affiliates are due upon then current terms, but in no event are the current terms longer than 30 days. See Item 8.

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

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

<u>Our Obligations Before Opening</u>

Before the opening of the franchised business, we will provide you with the following:

- Designate the territory within which you may install Classy Closets Products. (Franchise Agreement § 2.1.) See Item 12.

- Review plans for any showroom store to be established by a franchisee, including the location, layout, appearance, signage and product displays for the Showroom. (Franchise Agreement § 3.3.)

- Provide initial training for you and up to four other employees at no charge (if you are a new franchisee), in Maricopa County, Arizona, or another mutually acceptable location. (Franchise Agreement § 11.1.) This training may be waived if you signed a Multi-Store Amendment. See the detailed discussion under the caption "Training" below.

- Loan you one copy of the Manual. (Franchise Agreement § 12.2.) See Item 8.

- Loan and license you to use our proprietary computer software~~.~~ (Franchise Agreement § 8.1.) See the detailed discussion under the caption "Computer System and Software" below, and also Item 14.

Except where specifically noted, this assistance is also available in any new territory if you purchase additional franchises.

Our Obligations During Operations

- Inspect your showroom and manufactured materials to verify compliance with the Franchise Agreement. We may also inspect your installations during normal business hours. We may inspect a limited amount of inventory, equipment, advertising, or other samples for further evaluation without compensation to you. (Franchise Agreement § 12.3.1.)

- Provide you by telephone during business hours with reasonable support and consultation concerning the operation of your Classy Closets Business. (Franchise Agreement §§ 8.8 and 11.3.)

- Administer the Branding Fund, once implemented. See "Advertising" below. (Franchise Agreement § 11.4.1)

- Provide refresher or additional training at our sole option that may be mandatory or optional. We may or may not charge tuition for this training (Franchise Agreement § 11.2.).

- Provide onsite assistance that we deem, in our sole discretion, to be advisable or necessary. (Franchise Agreement § 11.3.)

- Loan you one copy of updates to our Manual and any additional manuals we may develop. (Franchise Agreement § 12.2.)

- Give you a right of first refusal to perform services for certain businesses with multiple locations or for builders of homes or offices in your area if we have the right to do so. (Franchise Agreement § 2.2.1.) See Item 12.

- Review the specifications you provide for your advertising. (Franchise Agreement § 10.4.3.) See the detailed discussion under the caption "Advertising" below.

- At our option, we may establish an area branding cooperative if there is more than one Classy Closets Business in a particular marketing area. (Franchise Agreement § 4.4.)

- Indemnify you against claims based solely on your proper use of the Marks. (Franchise Agreement § 12.4.5.)

- Engage in mediation, and if necessary, arbitration, of disputes over all issues other than the Marks and proprietary information. (Franchise Agreement §§ 15.4 and 15.5.)

- Approve any transfer of your franchise subject to the conditions in your Franchise Agreement. (Franchise Agreement § 13.)

This assistance is available in any new territory if you purchase additional franchises.

<u>Advertising</u>

We have the right to establish a Branding Fund. If we establish one, then you must contribute up to 4% of your gross sales to the Branding Fund, although we anticipate that the percentage will be typically be 2% of gross sales. Company-owned stores may contribute to the Branding Fund. Payments and advertising materials received from vendors may also be contributed to the Branding Fund. The Branding Fund may be used to pay for market research, development, branding, quality assurance, advertising materials, promotion or public relations programs, media placement for a national or regional advertising program, internet branding or marketing, or direct mail distribution. All Branding Funds can be used on a national, regional and/or local basis, and can be used to disseminate advertising through the Internet, and by print, radio and television. (Franchise Agreement § 11.4.1)

No Branding Funds will be used to solicit the sale of franchises although advertising may include a short statement that provides contact information for parties interested in franchising. We may develop programs or we may hire third parties for development and media placement. (Franchise Agreement § 11.4.1) Except for permitted administrative expenses, we will not receive any payments for providing goods or services to the Branding Fund. We will administer the Branding Fund. There is no advertising council of franchisees that advises us on advertising policies. Any part of a Branding Fund that is not used in one fiscal year will be carried forward to the next fiscal year. We will account for the Branding Fund separately and will prepare an annual report of the operations of the funds which will be available to franchisees who provide a written request for a copy. (Franchise Agreement § 11.4.1) The Branding Fund will be audited as part of the audit of our financial statements. We are not required to spend any amount of any Branding Fund for advertising in your territory. If we implement a special marketing campaign, we may use advertising materials developed by the Fund. If the campaign requires additional funds to be implemented such as buying air time in your market, and you elect to not pay a pro-rata share, then you will not receive the leads from the special campaign. During its last fiscal year, since we have not implemented any fund and have not received any funds from franchisees, we expended no advertising funds from franchisees and 0% was spent on production, 0% was spent on media placement, 0% was used for administrative expenses and 0% spent for other uses.

We do not currently have any cooperatives or branding councils that advise us on branding or marketing matters. At your option, you may purchase marketing materials from our affiliates.

There is no branding council composed of franchises that advises the franchisor on advertising policies.

We may form a branding cooperative if there is more than one franchisee or dealer in a marketing area but as of the date of this Disclosure Document, we have not yet established any area advertising cooperatives. If we do so in your area, then you will automatically be a member and must participate actively in any area advertising cooperative that we establish in your marketing area. We may establish, dissolve and realign advertising cooperative boundaries at any time. Each branding cooperative will operate under written operating rules. If there is a cooperative for your area, you can obtain a copy of its operating rules from us upon request. The cooperative's activities and the amount of assessments you must pay for its programs and operations will be determined by majority vote, with each franchisee in the cooperative (including any Classy Closets Businesses operated by us or our affiliates) having one vote. If we do not operate a Classy Closets Business in a particular marketing area, then we shall be a non-voting advisory member. See Item 6. Cooperatives will not be required to prepare financial statements. (Franchise Agreement § 4.4.)

You may not have an internet website for your business. We will create a website with a custom designed page containing your phone number, addresses, location, promotions, employees, and showroom information. (Franchise Agreement §10.4.4) You may not establish any social media account using our marks or name or to promote the franchised business such as domain names, a website, blog, Facebook page, Twitter account, chat room or use any other electronic media for your business without our prior approval. You agree to provide us with any passwords for any social media site and the right to access the site to correct any misleading or improper advertising and to operate the site if the franchise agreement is terminated. (Franchise Agreement §10.4.4) You may develop other advertising for your own use at your own cost. All your advertising is subject to our advanced, written approval. (Franchise Agreement § 10.4.3.) See Item 8.

Computer System and Software

Hardware and Operating System. You must have or obtain any brand of IBM-compatible personal computer system for your business. The minimum specifications for your computer system, and our recommended upgrades, are listed in the following chart:

Computer Hardware Requirements		
Equipment	**Minimum Specifications**	**Recommended Specifications**
Operating System	Windows 7 Pro or Windows 10 Pro (See Note 1)	Windows 7 Pro or Windows 10 Pro
Processor Type	Quad Core 2.5 GHz	Quad Core 2.5 GHz or higher
Hard Drive Size/Capacity	256 GB	500 GB or more
Virtual Memory	16 GB	16 GB or more
Monitor Size and Resolution	15” Super VGA, 1024 x 768, 16 bit color	17” Super VGA, 1280 x 1024, 32-bit color
Peripheral Ports	2 USB ports	4 USB ports or more
Communications	Internet service Wi-Fi	Broadband connection to the Internet (e.g., DSL, cable, Wi-Fi)
Miscellaneous	1 CD-ROM or DVD	1 48x (or higher) CD-ROM R/W or DVD R/W

Computer Hardware Requirements		
Equipment	**Minimum Specifications**	**Recommended Specifications**
Peripheral and OI/O Devices	1 standard mouse 1 standard keyboard	1 optical mouse with roller 1 standard keyboard with 10-key 1 USB flash drive (16GB or higher)
Printers	For designer use: HP or Epson small mobile bubble jet printer For office use: LaserJet printer	For designer use: HP LaserJet Pro 402-403n For office use: HP LaserJet Pro 402 or HP LaserJet 403n (see note 2)

Notes:

1. Windows 7 Pro or Windows 10 Pro is required to connect your work computer networks. These requirements are subject to change with software and other technological updates.

2. This series allows the printer to be connected directly to your network instead of to your computer, allowing anyone on your network to print.

Software. We will license you to use our proprietary computer software at the costs described below.

Software Type	Optional or Required	Access	Current Costs	Payable to
Ordering & Scheduling	Required to order products from us	Hosted on a server	One-time current cost of $225 per seat to access server	Microsoft®
CAD	Optional	Disk or hosted on a server	Currently, $750 initial fee and $300 annual maintenance fee	CCEI

The estimated cost to purchase your computer system ranges from $2,200 to $14,450. An electronic cash register is not required and accordingly, no cost estimates are included for this equipment.

If you order products from CCEI, you must use its ordering and scheduling software. You will access the software on a server hosted by CCEI. To access the server you must purchase a terminal license from Microsoft® or a third party vendor of Microsoft® products. You must purchase two items (a User CAL and a RDS User CAL) as part of this license which cost $309 as of the date of this disclosure document. You may purchase other seats if you wish. When accessing the server you must agree to the terms of our affiliate's End-User License Agreement. A copy of this agreement is included at Exhibit O to this Disclosure Document. CCEI and some dealers have been using this software since 2000. CCEI will provide you with access to its purchasing and scheduling software without any further charge although you must agree to the terms in our affiliate's End-Under License Agreement. You will also have the option to purchase the use of our affiliate's CAD software. This software is available on disk. You will access the software from a single computer and solely with the computer hardware system and third-party software specified in the Manual. You will pay an initial fee and an annual maintenance fee. These fees are subject to change. In the future, CCEI may offer you a license at a separate license fee for additional software to be used in the Classy Closets Business for accounting and other services. This software may be hosted on a server. (Franchise Agreement § 8.)

We will provide you with reasonable software support by telephone during business hours without charge. (Franchise Agreement § 8.8.) CCEI may provide updated versions of the software to you. You must install these upgrades within ten days if no hardware upgrade is required, and within twenty business days if upgraded hardware is required. (Franchise Agreement § 8.7.) If we upgrade the specifications for the computer hardware system in the Manual, you must upgrade your computer system at your expense. (Franchise Agreement § 8.2.) There are no contractual limitations on the frequency or cost of this obligation.

Rights and Obligations. We have the right to require you to return all copies of the software in the event you are in default under your Franchise Agreement. We currently do not have independent access to the information and data on the proprietary software that CCEI will loan you but we have independent access to the information stored on our server. There is no contractual restriction on this access, but we must keep your financial information confidential with limited exceptions. (Franchise Agreement § 5.7.)

Manual

A copy of the tables of contents of our current Operation's Manual is attached as Exhibit E to this Disclosure Document. The Operations Manual has a total of 123 pages. The table of contents shows the number of pages devoted to each subject.

Site Selection

We will grant you a territory within which you must operate your Classy Closets Business. You are not required to have a Classy Closets showroom in your territory, but if you choose to open one or more showrooms, then you must locate an appropriate site for each showroom. The location and appearance are subject to our prior approval that will not be unreasonably withheld. If you are a Conversion Franchisee with an existing showroom, then only alterations to your existing showroom or new showrooms are subject to our approval. We do not own or lease sites and then lease or sublease them to franchisees. If you elect to have one or more Classy Closets showrooms, then you should select the sites for your showroom based on factors such as neighborhood, area demographics, traffic patterns, access, parking, size, layout, length of availability and the terms and conditions of any proposed lease or purchase contract. You must notify us in advance of the location for any showroom you open or relocate and of any showroom closing. (Franchise Agreement §§ 2.1 and 3.3.)

If you have not begun operation of your Classy Closets Business within three months, we will have the right to terminate your Franchise Agreement without refunding your initial fee. (Franchise Agreement §§ 1.3 and 14.2.1B.)

Opening

The length of time between signing the Franchise Agreement (when the initial fee is paid) and the opening of a franchisee's business is typically one to three months. Factors affecting this length of time may include the ability to obtain a lease, making acceptable financing arrangements, meeting local ordinances or community requirements, slow delivery of equipment or supplies, and other factors bearing on completion of construction, remodeling, decorating, purchasing and installing equipment, fixtures and signs and similar factors. You have three months from the effective date of your Franchise Agreement to commence your business. (Franchise Agreement § 1.3.)

Training Program

Our initial training program as of the date of this Disclosure Document is described in the following chart:

INITIAL TRAINING

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Introduction	3		Classy's office
Sales & Design	16		Classy's office
Installation		40	Classy's office & customer locations
Marketing	10		Classy's office
Information Systems	7		Classy's office
Inventory and Purchasing	5		Classy's office
Customer Relations and Communications	1		Classy's office
Safety	1		Classy's office
Competitive Strategies	1		Classy's office
TOTAL HOURS	**44**	**40**	

The classroom training* will be conducted at Classy's office located in Chandler, Arizona. The "On-the-Job Hours" training will usually be conducted at Classy's office and at customer locations throughout Arizona. Training will be offered as needed. The instructors are: Brock Mortenson, Sean Wilson, Melissa Trottier, Fawn Peterson and T.J. Frost. The minimum experience of the instructors in the field that is relevant to the subject taught is 5 years. We will use our manual and operating equipment as our principal instructional materials.

If you are a new franchisee, you must complete our initial training program to our satisfaction. As part of your training, you must demonstrate an aptitude for the operating of the franchise, be a good fit for the system, and Classy must believe that your operation will not adversely affect the goodwill or reputation of the system. We provide this initial training to you and four other people at no charge. Your design manager and installation manager must each attend initial training. For any additional person trained at the same time or in the future we may charge you a $50 per person per day fee. See Item 6. (Franchise Agreement §§ 11.1 and 11.2.)

If you sign a Multi-Store Amendment, then you must complete our initial training program for each subsequent Classy Closets Business that you open. The design manager and installation manager for each Classy Closets Business may request that we waive this requirement if they have already attended our initial training program. We will not unreasonably withhold our waiver. (Multi-Store Amendment § 2.3.2(c).)

During initial training, you (or your employees) must pay all travel, lodging, meals and other personal expenses you or any of your employees incur, and you must pay for any compensation or benefits due employee trainees. We will not pay salary or any other compensation to anyone for services performed during training. (Franchise Agreement § 11.1.2)

We are not obligated to offer you additional training but we may offer refresher or additional training programs. If we offer this training, the training programs may be mandatory or optional. We may charge a reasonable tuition for any of these programs. (Franchise Agreement § 11.2)

ITEM 12
TERRITORY

Territory

The Franchise Agreement provides that you must commence operating your Classy Closets Business within the geographic area designated in Exhibit 1 to the Franchise Agreement within three months after you sign the Franchise Agreement. The area is typically at least 500 square miles, can be up to 30,000 square miles and is delineated by the political boundaries of cities or counties, or by boundary streets or highways, and takes into account population and traffic patterns. You have no rights to obtain additional franchises or areas. Your area may only be reduced with your consent and other franchisees, Classy or CCEI may sell in your territory if your gross sales are less than a certain amount. We may operate or license Classy Closets businesses anywhere outside of your territory. You are not required to have a Classy Closets showroom store in your territory but if you choose to do so, then the location and appearance are subject to our prior approval which will not be unreasonably withheld. If you are a Conversion Franchisee with an existing showroom, then only the location of any new or relocated showrooms is subject to our prior approval.

You will not have the right to install Classy Closet products outside of your territory without the prior written consent of Classy although you have the right to solicit customers outside of your territory. You must have our approval of any marketing materials that you use.

You will not receive an exclusive territory because we have the right to offer our products to customers in your area under alternative distribution channels. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

We are not required to pay you if we exercise any of the rights specified above inside your territory.

Minimum Monthly Sales

We will calculate a minimum monthly sales amount by multiplying the identified population in your territory when you sign your Franchise Agreement times a certain cent amount ("Minimum Monthly Sales") based on the number of years you have been operating according to the chart below. This minimum monthly sales amount is a standard by which we measure territory development (as discussed below) and it is not an earnings claim or a representation that you may or will reach the minimum monthly sales amount. We will provide you with an estimate of the minimum monthly sales before you sign the franchise agreement and state the minimum monthly sales in an exhibit to your Franchise Agreement.

Number of Years	Cents
1-2	None
3	3¢
4	4¢
5 –10	5¢

Example – Minimum Monthly Sales*.* *Your territory has a population of approximately 200,000 according to the 2016 Census when you sign your Franchise Agreement on August 15, 2017. Your first month for this calculation begins September 1, 2017. For the 1st year ending August 31, 2018 and the 2nd year ending August 31, 2019, you do not have any Minimum Monthly Sales requirements. During your 3rd year, from September 1, 2019 to August 31, 2019, your Minimum Monthly Sales will be calculated as 200,000 population times 3 cents which equals $6,000 (200,000 x .03 = $6,000). During your 4th year, from September 1, 2020 to August 31, 2021, your Minimum Monthly Sales will be calculated as 200,000 population times 4 cents which equals $8,000 (200,000 x .04 = $8,000). During your 5th year, from September 1, 2021 to August 31, 2022, your Minimum Monthly Sales will be calculated as 200,000 population times 5 cents which equals $10,000 (200,000 x .05 = $10,000). (The above example assumes no adjustment for inflation.)*

Average Monthly Sales and Sales in Your Territory

We will also calculate your average monthly sales for a rolling three-month period ("Average Monthly Sales"). If your Average Monthly Sales are less than your Minimum Monthly Sales, and you do not increase your sales after 90 days' notice, then we may either (a) sell, or authorize another franchisee or affiliate to sell, Classy Closets Products in your territory or (b) elect to reduce your territory to a minimum population that is the same percentage of Average Monthly Sales to Minimum Monthly Sales. We may continue to allow that franchisee to conduct business in your territory or do so ourselves even if you later increase your gross sales above your Minimum Monthly Sales amount. We retain the right to determine the parameters of the reduced territory but the new parameters would be disclosed in writing to you.

Example – Average Monthly Sales vs. Minimum Monthly Sales*.* *Assuming the same dates and population size as in the above example, if your gross sales for the month ended June 2019 are $6,500, for July 2019 are $6,200 and for August 2019 are $5,800, then your Average Monthly Sales for September 2019 is $6,166 ($6,500 + $6,200 + $5,800 = $18,500 ÷ 3 = $6,166). This amount is compared to your Minimum Monthly Sales requirement for September 2019 which is $6,000. In this calculation, you have met the minimum monthly sales requirement because your Average Monthly Sales of $6,166 is greater than your Minimum Monthly Sales requirement of $6,000.*

If Franchise's Gross Sales for the month ended June 2017 are $3,500, for July 2017 are $2,200 and for August 2017 are $2,800, then the Average Monthly Sales for September 2017 is $2,833 ($3,500 + $2,200 + $2,800 = 8,500 ÷ 3 = $3,167). Franchisee's Average Monthly Sales of $2,833 are less than Franchisee's Minimum Monthly Sales requirement of $6,000 and Franchisee has not met its requirements. Classy may give notice to Franchisee that Franchisee has 90 days to increase Franchisee's Gross Sales during that 90-day period or Classy may permit another franchisee, an affiliate or itself to conduct business in the Territory. If sales are not increased during the 90-day period, Classy may also reduce the Territory to a minimum population that is 47% (calculated as 2,833/6000) of the current population in the Territory.

Solicitation of Customers

You may install Classy Closets Products outside of your territory only with our prior consent. We may withhold our consent if the location is within another franchisee or dealer's territory or for other reasonable business reasons. So long as you are not in default under your Franchise Agreement, we will not install Classy Closets Products in homes or offices located in your territory, and will use reasonable efforts to prohibit any of our franchisees from installing Classy Closets Products in homes or offices located in your territory.

Other Channels of Distribution

We may sell Classy Closets Products to the public through other channels of distribution such as catalogs and internet sales.

Multiple Locations

We may enter into agreements with businesses that have locations both within and outside of your territory or with builders of homes or offices. You will be given the option of providing the installation services at the locations within your territory. If you do not elect to do so upon the terms we have contracted for, then we, or someone else we select, may do so without any payment to you.

Other Businesses

We do not operate, franchise or have present plans to operate or franchise a business under a different trademark or to engage in any other type of business. CCEI manufactures Classy Closets Products as well as operates Classy Closets businesses. You have no right to a license from us or our affiliates for this manufacturing business although you may manufacture Classy Closets Products in accordance to the specifications in our Manual that are to be used in your Classy Closets Business.

Renewal

Upon your renewal, we will evaluate the population in your territory according to the most recent census or another independent population based program or service. Your territory may be adjusted to maintain the size of the population that you initially selected.

Multi-Store Development

If you wish to develop and operate several Classy Closets Businesses within one or more development areas, and if you qualify, you may sign a Multi-Store Amendment to the Franchise Agreement permitting you to develop additional Classy Closets Businesses in territories requested by you and as designated by us. The development area(s) in which all of the Classy Closets Businesses must be operated is designated in the Multi-Store Amendment and is typically delineated by the political boundaries of cities or counties, or by boundary streets or highways. So long as you are in compliance with the development schedule and not otherwise in default, then until six months following the opening of your last Classy Closets Business specified in the Multi-Store Amendment, we are prohibited from installing Classy Closets Products in homes or offices located in the development area (except in conjunction with contracts for multiple locations, as to which we will give you a five-day right of first refusal if we have the contractual right to do so and if we believe that you can effectively and efficiently install Classy Closets Products). We will also use reasonable efforts to prevent other franchises from installing Classy Closets Products in homes or offices located in the development area. At the end of the specified time, the development area reverts to us. We may operate in the development area and permit other Classy Closets businesses to operate in the development area, so long as the territory for the other businesses is not within the territory for your Classy Closets Business and we are not installing Classy Closets Products in homes or offices in your territory. The Multi-Store Amendment is Exhibit D to this Disclosure Document.

ITEM 13
TRADEMARKS

Licensed Trademarks

You have the right and obligation to use the trademark "Classy Closets" as shown on the cover of this Disclosure Document and any other marks that may be licensed to you by us in the future, only in connection with your Classy Business ("Marks"). Our registered mark (discussed in further detail below) is slightly different from the updated design mark on the front cover of the Disclosure Document.

All rights and good will arising from your use of our names and trademarks accrue solely to us or our affiliates. As of the date of this Disclosure Document, no affidavits of use or renewal were required to be filed.

License to Classy and Affiliates

Our affiliate, Classy Etc., Inc., is the owner of the original Classy mark. Pursuant to a License Agreement effective as of December 1, 2005, Classy Etc., Inc. granted us, and CCEI (Classy Closets Etc., Inc.), a license in perpetuity for all of the Marks owned by Classy Etc., Inc. Under the License Agreement, we may license our franchisees to use the Marks and CCEI may continue to use the Marks in its manufacturing, sales of materials and operations. The License Agreement also provides that Classy Etc., Inc. and CCEI are not obligated to contribute to any advertising fund that might be administered by us in the future under our franchise agreements or participate in any advertising cooperatives that our franchisees might participate in the future. (See Item 11.)

You may not use the Classy marks in any electronic mail address or in any domain name or social media communication. You may not maintain a World Wide Web site or a presence or advertise on the Internet, Facebook, blog, Twitter account or other similar electronic media, or on any other public computer network, or any other kind of public modality, using the Classy marks or referencing Classy Closets without our prior written consent, which may be withheld in our sole judgment. We own all rights to any websites, electronic commerce names or collected data that include our trademarks or that we permit to you use for our franchise system.

Registrations

Classy Etc., Inc. owns the following registration on the principal register of the United States Patent and Trademark Office for its principal trademarks:

Trademark	Registration Number (Serial Number)	Registration Date
Classy (word mark)	1,993,137	8/13/1996 Renewed Until 8/12/2026
Classy Closets and Design (“updated” design mark as shown on the cover of the FDD)	3515939	10/14/2008 Renewed Until 10/13/18
Life. Organized. (word mark)	3155711	3/31/2005 Renewed Until 3/30/2025

Affidavits of use and incontestability have been filed for the trademarks at registration no. 1,993,137, registration no. 3515939, and registration no. 3155711 and the marks are now incontestable. Registration no. 1,993,137, registration no. 3515939, and registration no. 3155711 have been renewed, as shown in the chart above. As of the date of this Disclosure Document, no other affidavits of use or renewals were required to be filed. Classy Etc., Inc. intends to file all required affidavits and renewals before expiration.

Proceedings, Agreements and Infringements

There are no currently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, any court, or the trademark administrator of any state, no pending infringement, opposition or cancellation proceedings, no pending material lawsuits, and no agreements currently in effect other than as stated above, concerning the trademarks that could materially affect your rights.

Infringements

We are not aware of any superior prior rights to, or infringing uses of, the Classy Closets Marks which could materially affect your rights. There are other uses of the words "closets" associated with products and services that are sold by third parties not affiliated with us. We will take any action that it deems appropriate with respect to these matters.

Protection of the Marks

In the event you become aware of any infringing use of any Mark, or if any third party makes any claim, by suit or otherwise, against you from your use of any Mark, you must promptly notify us. We may take whatever action we deem appropriate; and if any such claim relates solely to your use of any Mark in full compliance with this Agreement, we will hire counsel of own own choosing to defend you against any such claim, suit or demand, and shall indemnify you from any loss or cost from the legal action. You agree to execute any documents and take such actions that we believe advisable for the action.

Change of Marks

If it becomes advisable at any time for us to modify or discontinue using any trademark or to use one or more additional or substitute trademarks, you must comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your direct expenses of changing the business' signs, for any loss of revenue due to any modified or discontinued trademark, or for your expenses of promoting a modified or substitute trademarks.

ITEM 14
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Patents

There are no patents or pending patents material to your franchise.

Copyrights

Copyrighted Materials. The Manual, proprietary software programs, marketing materials and the designs related to the Classy Closets Products that have been developed by us and our affiliate are protected by copyright. These copyrights have not been registered. The Franchise Agreement grants you the right to use these copyrighted materials for the term of the Franchise Agreement. If we decide to add, modify or discontinue the use of copyrighted material, then you must do so also, at your expense, provided however, that you are not required to implement any change that would adversely affect your rights or materially increase your obligations unless you have agreed in writing to make the change or the change involves the Marks or additional mandatory Classy Closets Products. If you are part of a photograph that we take at the location or at one of our events, we may use that photograph in any publications.

Proceedings and Agreements. There are no pending copyright applications relating to our copyrighted materials. There are no determinations of the Copyright Office or any court, no pending interference, opposition or cancellation proceedings, and no agreements concerning any copyrighted materials that could materially affect your rights.

Infringements. We have no actual knowledge of any infringing uses of our or our affiliate's copyrights, and there is no pending litigation regarding the copyrights that could materially affect your rights.

Protection of the Copyrights. You must notify us of any infringing use of our copyrights if you become aware of a potential infringing use. We must indemnify you against all claims for copyright infringement based on your authorized use of our copyrighted materials in accordance with your Franchise Agreement and the Manual. You must give us prompt written notice of any claim against you as stated in the Manual. We are not required under the franchise agreement to take any affirmative action when notified of any infringement of our copyrighted materials and we have the right to control any proceedings relating to any of these claims.

Confidential Information

Customer information for your business will be owned by us while your Franchise Agreement is in effect. Upon the termination or expiration of your Franchise Agreement, we will remain the sole owner of all customer information without any payment to you.

You will be entitled to use the confidential and proprietary Manual, and you will have access to other confidential information, including our proprietary computer software, wholesale prices, vendor, and pricing information and manufacturer information, in the conduct of your Classy Closets Business. See Items 8 and 11. You must protect the confidentiality of these materials and to prevent the wrongful disclosure or duplication of these materials and the information in them. You, and your designated representative, officers, directors, owners, design manager, installation manager, and any employee with access to confidential information, must each sign the Confidentiality and Noncompetition Agreement attached to this Disclosure Document as Exhibit 3 to the Franchise Agreement.

Change of Copyrighted Materials

You are required under the franchise agreement to discontinue, at your own expense, the use of any of our copyrighted materials that we have discontinued. If we have modified our copyrighted materials, then we will provide you with the modified materials and instructions for their use and the discontinuance of the revised materials.

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

We strongly believe that the success of your business will depend on your personal and continued efforts, supervision and attention. If you are a corporation or other form of legal entity, you must appoint a designated representative for the entity. The designated representative is subject to our approval and must satisfactorily complete our initial training and devote his best efforts to the direct, day-to-day full time supervision of your Classy Closets Business. See Item 11. Any owner, regardless of ownership percentage, in a corporation or other business entity that is a Franchisee must personally guarantee all of the obligations of the Franchisee, and sign the Guaranty which is Exhibit 2 to the Franchise Agreement (and included in Exhibit C to this Disclosure Document).

You must also designate a design manager who will manage design services and an installation manager who will manage installation services. These managers may be the individual franchisee or the designated representative of a franchisee that is a corporation or other legal entity. The design manager and installation manager must successfully complete initial training and be approved by us before assuming any management responsibilities. The designated representative, design manager and installation manager are not required to have an equity interest in your business.

The designated representative, design manager and installation manager must sign a Confidentiality and Noncompetition Agreement which prohibits them from having any interest in any business that derives ten percent or more of its revenues from the sale of the design or installation of custom storage solutions that is located anywhere in the United States while they work for you, or that is located within your territory, within a radius from your business to your furthest customer or within 50 miles of a business franchised or operated by us for two years after they no longer work for you. The Confidentiality and Noncompetition Agreement is attached to this Disclosure Document as Exhibit 3 to the Franchise Agreement. See Items 14 and 17.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

Goods and Services

You must offer and sell only those products and services that we have authorized. You must offer all goods and services that we designate as required in the Manual. See Item 8.

You will be authorized to operate as "Classy Closets®." You may use only the Classy Closets trademarks and offer only Classy Closets Products and authorized services. You may not conduct or advertise any other business under the trademarks licensed to you by us or the telephone numbers associated with your business. We and our affiliates have the right to change the types and wholesale prices of Classy Closets Products. There are no limits to this right. We will give you 30 days advance notice of increases in our affiliates' wholesale prices.

You may solicit customers outside of your territory but you are prohibited from installing Classy Closets Products outside of your territory unless you obtain our prior written consent. If you choose to manufacture Classy Closets Products in accordance with our specifications, then you cannot sell those products at wholesale without our prior approval. You are not required to have a showroom but if you establish one or more showrooms, then the location, layout and appearance, signage and product displays are subject to our written consent. If you are a Conversion Franchisee with an existing showroom, then only alterations to your existing showroom or new showrooms are subject to our prior approval.

Limited Warranty Programs

You must participate in all limited warranty programs established by us or our affiliates. As of the date of this Disclosure Document, Classy and its affiliates warrant that all Classy Closets Products purchased from us or our affiliates will be free of any defect in workmanship or material at the time you purchase the product. If the product is defective in workmanship or material, we will repair the defective product, adjust the original sales prices or provide a replacement. We will choose which action to take. You may have to ship the defective product to us at your expense. The limited warranty extends for as long as you have the product in your inventory and as long as your customer occupies the property where the Classy Closets Product was installed.

You must provide your customers with a written limited warranty on the forms that we or our affiliates provide for Classy Closets Products and installation services. Normal wear and tear is not included. The warranty is void if the Classy Closets Products are misused or stored or installed by you in a manner that is not in compliance with the Manual or is installed or misused by the customer. You must also honor all warranties presented to you, whether issued by you, Classy, its affiliates or other franchisees. Any warranty claim must be in writing. If the warranty claim is based on a customer claim, then you must make that warranty claim to us within 10 days after the customer made the claim against you and you must cooperate fully with us in handling the claim.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Provision	Section in franchise ("FA") or other Agreement	Summary
a. Length of franchise term	FA § 9.1	10 years.
b. Renewal or extension	FA § 9.2	An unlimited number of successive 5-year terms.
c. Requirement for franchisee to renew or extend	FA § 9.2	You must be in good standing, give 6-9 months' notice, upgrade your location and sign a general release and a new agreement. Your territory may also be adjusted. If you wish to renew your franchise at the expiration of the initial term or any renewal term, you may be asked to sign a new franchise agreement that contains terms and conditions materially different from those in your original or previous franchise agreement, except that the initial fee will be waived.
d. Termination by franchisee	Not Applicable	The Franchise Agreement does not provide for this. But you may seek to terminate on any grounds available to you at law.
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with cause	FA § 14.2; MSA §§ 4.3, 4.4	Subject to state law, we can terminate after 5 days' notice for non-payment, after 1 month for any other material default that can be cured and immediately upon written notice if a material default cannot be cured. We can terminate the Multi-Store Amendment for your failure to meet the development schedule after 30 days' notice but this failure will not be a default of your existing franchise agreements. Any other breach of the Multi-Store Amendment is also a breach of the Franchise Agreement. If we terminate your Franchise Agreement then we may also terminate your Multi-Store Amendment.
g. "Cause" defined – curable defaults	FA § 14.2.1; MSA § 4.3	Subject to state law: non-payment; failure to open on time, failure to meet minimum sales, misuse of confidential information or our trademarks; and breaches of other material obligations. Under the Multi-Store Amendment, failure to meet the development schedule. We may suspend our obligations to you until you cure the default.

Provision	Section in franchise ("FA") or other Agreement	Summary
h. "Cause" defined –non-curable defaults	FA § 14.2.1	Subject to applicable law: uncured defaults under other agreements with us or our affiliates; misrepresentation; no purchases from us for 2 months without approval for the lack of purchases; three breaches within 12 months; and criminal acts.
i. Franchisee's obligations on termination/ non-renewal	FA § 14.4; Ex. 3 para. 5	Pay money owed to us; cease use of trademarks; assign telephone numbers; return manuals, software, forms, clothing and trademarked and confidential materials; sale of inventory to us; confidentiality; and non-competition. Certain Franchise Agreement obligations continue.
j. Assignment of contract by franchisor	FA § 13.6	We may transfer to any person or entity we believe is capable.
k. "Transfer" by franchisee-defined	FA § 13.1	Any assignment or pledge of the Franchise Agreement, substantially all your business assets, or more than a 50% ownership change.
l. Franchisor approval of transfer by franchisee	FA § 13.2	Transfer to a legal entity you control pre-approved subject to certain conditions; approval of other transfers cannot be unreasonably withheld.
m. Conditions for Franchisor approval of transfer	FA § 13.1	The new franchisee must be qualified, sign a new agreement, successfully complete training, must perform upgrading to current standards, assume your sales history for the purpose of calculating the royalties due and provide Guaranties and Confidentiality and Noncompetition Agreements; you must be in good standing, have offered us a right of first refusal, pay all amounts owed to us and our affiliates, the purchase price must not be burdensome, provide us with sufficient time to meet the franchise disclosure obligations, indemnify us for any representations you made, and sign a general release (also see n below).
n. Franchisor's right of first refusal to acquire franchisee's business	FA §§ 13.1. 8, 13.5	Within 10 business days of notice of assignment of the Franchise Agreement, substantially all of the business assets or 100% of franchisee's ownership interests. We may match any offer you receive.
o. Franchisor's option to purchase franchisee's business	FA § 14.4.4	Upon expiration or termination of your franchise, we must repurchase any inventory in new and good condition (determined by appraisal if the parties cannot agree) less setoffs for amounts owed to us and our affiliates.
p. Death or disability of franchisee	FA § 13.4	Subject to acceptable temporary operating conditions, your heirs have 6 months to transfer the business (subject to the conditions in m above).

Provision	Section in franchise ("FA") or other Agreement	Summary
q. Non-competition covenants during the term of the franchise	FA §§ 11.1. 4, 12.6, 12.9; Ex. 3 §§ 2, 3, 6, 11	Subject to state law, no involvement with any business with that has 10% or more of its revenues from the sale of cabinetry or any other custom storage solutions located in the U.S; no unauthorized use of confidential information; and no solicitation of employees of Classy, its affiliates or other franchisees.
r. Non-competition covenants after the franchise is terminated or expires	FA 11.1.4, 12.6, 12.9; Ex. 3 §§ 2, 3, 6, 11	Subject to state law, no involvement with any Classy Closets business located in your Territory, within a radius from your Classy Closets Business location to the furthest customer you made sales to or within 50 miles of any business operated by us, our affiliates, or our franchisees, for 2 years; no use of confidential information for the greater of four years or the time that the information is a trade secret, and no solicitation of customers or employees of Classy, its affiliates or other franchisees, for 2 years.
s. Modification of the agreement	FA §§ 12.6. 2, 16.4.2	We have the right to reduce the scope of the noncompetition covenants unilaterally; automatic conformance to state law; otherwise only by signed document.
t. Integration/ merger clause	FA § 16.4.1; Ex. 3 § 10	Only the terms of the Franchise Agreement (including system standards in the Manual are binding (subject to state law). Any statements or promises not in the Franchise Agreement or this disclosure document should not be relied upon and may not be enforceable.
u. Dispute resolution by arbitration or mediation	FA §§ 15.4, 15.5	Mandatory binding arbitration except for injunctive relief; nonbinding mediation on issues not related to our trademarks or confidential information.
v. Choice of forum	FA §§ 15.3, 15.1.2	Arbitration must be held in Maricopa County; we may seek injunctive relief anywhere.
w. Choice of law	FA § 15.1.1	Arizona law applies (subject to applicable state law, see Exhibit B).

ITEM 18
PUBLIC FIGURES

We do not use any public figure 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 franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

The following chart sets forth the average, high and low dollar amounts of actual yearly and monthly gross sales for the twelve month period that ended on December 31, 2017.

Franchised Yearly Gross Sales 2017					
Number of Franchisees	Mean (Average) Yearly Gross Sales (Note 1)	Median Yearly Gross Sales (Note1)	# and (%) of Franchisees Meeting Average Yearly Gross Sales Out of Total Franchisees	High Yearly Gross Sales	Low Yearly Gross Sales
12 Franchisees	$899,644	$688,788	5 (42%)	$2,632,574	$35,855

Affiliate Owned Yearly Gross Retail Sales 2017					
Affiliated Location	Mean (Average) Yearly Gross Sales (Note 1)	Median Yearly Gross Sales (Note1)	# and (%) of Franchisees Meeting Average Yearly Sales Out of Total Franchisees	High Yearly Gross Sales	Low Yearly Gross Sales
1 Location	$16,271,054	$16,271,054	1 (100%)	$16,271,054	$16,271,054

Franchised Monthly Gross Sales 2017					
Franchisees	Mean (Average) Monthly Gross Sales (Note 1)	Median Monthly Gross Sales (Note1)	# and (%) of Franchisees Meeting Average Monthly Sales Out of Total Franchisees	High Monthly Gross Sales	Low Monthly Gross Sales
12 Franchisees	$74,970	$57,339	5 (42%)	$219,381	$2,988

Affiliate Owned Monthly Gross Retail Sales 2017					
Affiliated Location	Mean (Average) Monthly Gross Sales (Note 1)	Median Monthly Gross Sales (Note1)	# and (%) of Franchisees Meeting Average Monthly Sales Out of Total Franchisees	High Monthly Gross Sales	Low Monthly Gross Sales
1 Location	$1,410,027	$1,410,027	1 (100%)	$1,546,180	$1,167,705

Notes:

1. Numbers are as of December 31st. We also sell our Classy Closets Products to dealers who operate under their own name and may sell closet products from other independent third parties. We currently have two dealers, one in Texas and one in Wyoming.

2. Gross sales means the total revenue derived from the sale of goods and services less sales tax, discounts, allowances, and returns. The Mean is the calculation of the average of all the information by summing all the information and dividing by the number of stores included. The Median is the number that is in the center of all sales if the sales information for each store is listed from low to high. If there are an odd number of stores reporting sales, then it will be the number in the middle. It may be an average of two numbers if there is an even number of stores reporting sales.

Basis

We have included information from the 12 franchised locations that were open at least 12 months and reported information to us out of 12 total operating franchised outlets as of December 31, 2017. We have also included information from 1 affiliated location out of 1 total affiliated locations as of December 31, 2017. In reporting the sales of the affiliated location we have only reported retail sales and have not reported any sales of products to franchisees. All franchisees and the affiliated location offer substantially the same products and services as will be offered by your Classy Closet Business. We have not included any information from the 2 dealers that sell our branded product as these dealers operate under a different financial and operational program than the franchise program.

You should conduct an independent investigation of the costs and expenses you will incur in operating your Classy Closet Business. Franchisees or former franchisees, listed in the Disclosure Document may be one source of this information.

Substantiation of the data used in preparation of these charts will be made available to you upon request.

Material Assumptions

The above locations reported gross sales information based on a uniform reporting system. We believe that the reporting system is consistent with generally accepted accounting principles. We have assumed that the information reported is accurate and have no reason to believe it is inaccurate but the sales figures provided have not been audited by us. We have made no other material assumptions in disclosing the figures described below.

Some outlets have sold this amount. Your individual results may differ. There is no assurance that you will sell as much.

Other than as stated above, 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 such representations either orally or in writing unless you have requested supporting document for the information presented above. 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 from our employees or representatives that is not the information stated below or supporting documentation of this information, you should report it to our management by contacting us at 1251 S. Nelson Drive, Chandler, Arizona 85226, the Federal Trade Commission and any appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

System wide Outlet Summary
For years 2015 to 2017 (Note 1)

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2015	15	13	-2
	2016	13	12	-1
	2017	12	12	0
Company-Owned	2015	1	1	0
	2016	1	1	0
	2017	1	1	0
Total Outlets	2015	16	14	-2
	2016	14	13	-1
	2017	13	13	0

Note:

1. Numbers for each of the three years are as of December 31st. We also sell our Classy Closets Products to dealers who operate under their own name and may sell closet products from other independent third parties. We currently have two dealers, one in Texas and one in Wyoming.

Table No. 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) For Years 2015 to 2017 (Note 1)

State	Year	Number of Transfers
Arizona	2015	0
	2016	0
	2017	0
California	2015	0
	2016	0
	2017	0
Colorado	2015	0
	2016	0
	2017	0
Connecticut	2015	0
	2016	0
	2017	0
District of Columbia	2015	0
	2016	0
	2017	0
Florida	2015	0
	2016	0
	2017	0
Georgia	2015	0
	2016	0
	2017	0
Idaho	2015	0
	2016	0
	2017	0

State	Year	Number of Transfers
Illinois	2015	0
	2016	0
	2017	0
Kansas	2015	0
	2016	0
	2017	0
Massachusetts	2015	0
	2016	0
	2017	0
Montana	2015	0
	2016	0
	2017	0
Nevada	2015	0
	2016	0
	2017	0
New York	2015	0
	2016	0
	2017	0
Texas	2015	0
	2016	0
	2017	0
Utah	2015	0
	2016	0
	2017	0
Washington	2015	0
	2016	0

State	Year	Number of Transfers
	2017	0
Wyoming	2015	0
	2016	0
	2017	0
Totals	2015	0
	2016	0
	2017	0

Note:

1. Numbers for each of the three years are as of December 31st.

Table No. 3

Status of Franchised Outlets
For years 2015 to 2017 (Notes 1 & 2)

State	Year	Outlets at Start of Year	Outlets Opened	Termina-tions	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Arizona	2015	2	0	0	0	0	1	1
	2016	1	0	0	0	0	0	1
	2017	1	0	0	0	0	0	1
California	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
	2017	1	0	0	0	0	0	1
Colorado	2015	3	0	0	0	0	0	3
	2016	3	0	0	0	0	0	3
	2017	3	0	0	0	0	0	3
Kansas	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Termina-tions	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
	2017	1	0	0	0	0	0	1
Montana	2015	1	0	0	0	0	0	**1**
	2016	1	0	0	1	0	0	0
	2017	0	0	0	0	0	0	0
Nevada	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
Texas	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
Utah	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
Totals (Note 2)	2015	15	0	0	0	0	2	13
	2016	13	0	0	1	0	0	12
	2017	12	0	0	0	0	0	12

Notes:

1. Numbers for each of the three years are as of December 31st for each year.

Table No. 4
Status of Company-Owned Outlets
For years 2015 to 2017

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Arizona	2015	1	0	0	0	0	1
	2016	1	0	0	0	0	1
	2017	1	0	0	0	0	1
Totals (Note 1)	2015	1	0	0	0	0	1
	2016	1	0	0	0	0	1
	2017	1	0	0	0	0	1

Note 1: Numbers for each of the three years are as of December 31st for each year.

A list of the names of all franchisees and the addresses and telephones numbers of their businesses are provided in Exhibit F to this Disclosure Document.

The name, city, state and current business telephone number (or if unknown, the last known home telephone number) of every franchisee who had a business terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of the issuance date of this disclosure document are listed on Exhibit G to this Disclosure Document. **If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.**

During the last three fiscal years, we have not had any franchisees sign confidentiality provisions that would restrict their ability to speak openly about their experience with the franchise system.

There are no trademark-specific organizations formed by our franchisees that are associated with the system which have asked to be included in this disclosure document.

Table No. 5

Projected Openings as Of December 31, 2018

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet In the Next Fiscal Year
Arizona	0	0	0

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet In the Next Fiscal Year
California	0	3	0
Colorado	0	0	0
Connecticut	0	0	0
District of Columbia	0	0	0
Florida	0	0	0
Georgia	0	0	0
Idaho	0	1	0
Illinois	0	0	0
Kansas	0	0	0
Massachusetts	0	0	0
Montana	0	0	0
Nevada	0	0	0
New York	0	0	0
Texas	0	5	0
Utah	0	0	0
Washington	0	0	0
Wyoming	0	0	0
Totals	0	9	0

Notes:

1. As of the date of this Disclosure Document.

2. Some of our affiliate's qualified dealers may convert to franchisees. The numbers in this chart do not include any estimates of the numbers of dealers who may convert.

ITEM 21
FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit J are the audited financial statements of the Company for the fiscal years ending December 31, 2017, December 31, 2016 and

December 31, 2015 and our unaudited interim financial statements for the 7-month period ending July 31, 2018.

ITEM 22
CONTRACTS

Attached as Exhibits to this Disclosure Document are copies of the following agreements relating to the offer of the franchise:

Exhibit C - Classy Closets Franchise Agreement and its Exhibits:
- 1 - Terms
- 2 - Guaranty
- 3 - Confidentiality and Noncompetition Agreement

Exhibit D - Multi-Store Amendment
Exhibit L - Receipt for Completed Documents
Exhibit M - Confirmation of Sales Procedures
Exhibit N - Dealer Conversion Amendment
Exhibit O - End-User License Agreement

ITEM 23
RECEIPTS

Exhibit P contains detachable documents acknowledging your receipt of this disclosure document.

EXHIBIT A
STATE AGENCIES EXHIBIT

California	Commissioner of Business Oversight 320 W. 4th Street, Suite 750 Los Angeles, California 90013-2344 213/576-7500 Toll Free1- 866/275-2677
	1515 K Street, Suite 200 Sacramento, California 95814-4052 916/445-7205 Toll Free1- 866/275-2677
	1350 Front Street, Room 2034 San Diego, California 92101-3697 619/525-4233 Toll Free 1-866/275-2677
	One Sansome Street, #600 San Francisco, California 94104-4428 415/972-8565 Toll Free 1-866/275-2677
Connecticut	Securities and Business Investment Division Connecticut Department of Banking 260 Constitutional Plaza Hartford, Connecticut 06103 860/240-8299
Florida	Department of Agriculture and Consumer Services Division of Consumer Services 2005 Apalachee Parkway Tallahassee, Florida 32399-6500 850/488-2221
Hawaii	Commissioner of Securities of the State of Hawaii Hawaii Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 808/586-2722
Illinois	Illinois Attorney General 500 South Second Street Springfield, Illinois 62706 217/782-4465
Indiana	Securities Commissioner Indiana Securities Division 302 West Washington Street, Room E-111 Indianapolis, Indiana 48933 317/232-6681

Iowa	Iowa Securities Bureau 340 E. Maple Street Des Moines, Iowa 50319-0066 515/281-4441
Maryland	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202 410/576-6360
Michigan	Franchise Administrator 670 Law Building 525 West Ottawa Street Lansing, Michigan 48913 517/373-7117
Minnesota	Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198 651/539-1600
Nebraska	Nebraska Department of Banking and Finance Bureau of Securities/Financial Institutions Division 1526 K Street, Suite 300 Lincoln, Nebraska 68508-2732 P.O. Box 95006 Lincoln, Nebraska 68509-5006 402/471-2171
New York	New York State Department of Law 120 Broadway, 23rd Floor New York, New York 10271 212/416-8211
North Dakota	North Dakota Securities Department 600 East Boulevard Avenue State Capitol – 5th Floor Bismarck, North Dakota 58505-0510 701/328-2910
Oregon	Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building Salem, Oregon 97310 503/378-4387

Rhode Island	Associate Director and Superintendent of Securities Division of Securities 1511 Pontiac Avenue John O. Pastore Complex - Building 69-1 Cranston, RI 02920 401/462-9527
South Dakota	Franchise Administrator Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563
Texas	Secretary of State 1019 Brazos Street [Zip 78701] P. O. Box 12887 Austin, Texas 78711-2887 512/475-1769
Utah	Department of Commerce Division of Consumer Protection 160 E. 300 South SM Box 146704 Salt Lake City, Utah 84114-6704 801/530-6601
Virginia	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street 9th Floor Richmond, Virginia 23219 804/371-9051
Washington	Administrator Department of Financial Institutions Securities Division 150 Israel Road SW P. O. Box 9033 [Zip 98501-9033] Tumwater, Washington 98501 360/902-8760
Wisconsin	Administrator DFI, Division of Securities 345 W. Washington Avenue P.O. Box 1768 [Zip 53701] Madison, Wisconsin 53703 608/261-9555

EXHIBIT B

STATE LAW ADDENDUM

IN CERTAIN STATES FRANCHISEES ARE PROTECTED BY SPECIFIC LAWS. THESE STATE LAWS ARE REFERENCED AND SUMMARIZED IN THIS EXHIBIT. IF THE LAWS OF A PARTICULAR STATE GOVERN YOUR FRANCHISE, ITS STATUTES AND REGULATIONS AUTOMATICALLY APPLY TO YOUR FRANCHISE, AND AMEND BOTH YOUR AGREEMENTS WITH THE FRANCHISOR AND THIS DISCLOSURE DOCUMENT INCLUDING THE DOCUMENTS WHICH ARE ATTACHED AS EXHIBITS TO THIS DISCLOSURE DOCUMENT, INCLUDING ANY CONFIRMATION OF SALES PROCEDURES), UNLESS A PARTICULAR STATE LAW IS UNENFORCEABLE BECAUSE IT CONFLICTS WITH FEDERAL LAW AND IS PREEMPTED.

ALL STATES

(EXCEPT CALIFORNIA)

Bankruptcy Disclosure

A franchisor is required to state in Item 4 of the Disclosure Document whether the franchisor, its affiliate, its predecessor, officers or general partners during the ten year period immediately before the date of the Disclosure Document: (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 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 Bankruptcy Code during or within one year after the officer or general partner held his position in the company or partnership. If so, the franchisor must disclose the name of the person or company that was the debtor under the Bankruptcy Code, the date of the action and the material facts.

Choice of Law and Forum

Certain states have statutes and court decisions that may supersede provisions of the franchise agreement that require the application of laws of states other than the franchisee's state or require litigation in a state other than the franchisee's state. However, some of these state laws may be unenforceable under the Federal Arbitration Act, 9 U.S.C. §§ 1-16, which pre-empts conflicting state law.

Covenants Not To Compete

Certain states have statutes (cited below) that may limit the franchisor's ability to restrict your activity after the franchise agreement has ended. Other states have court decisions limiting the franchisor's ability to restrict your activity after the franchise agreement has ended.

Federal Arbitration Act

Certain state laws prohibiting or restricting arbitration agreements may be unenforceable under the Federal Arbitration Act, 9 U.S.C. §§ 1-16, which pre-empts conflicting state law.

Federal Bankruptcy Law

A provision in the franchise agreement that terminates the franchise upon the bankruptcy of the franchisee may not be enforceable under federal bankruptcy law, Title 11, United States Code, Section 101 *et seq*.

Liquidated Damages

Certain states have statutes (cited below) that may restrict or prohibit the imposition of liquidated damage provisions. The imposition of liquidated damages is also restricted by fair practice laws, contract law and state and federal court decisions.

Litigation Disclosure

A franchisor is required to disclose in Item 3 of the Disclosure Document whether the franchisor, its predecessor, a person identified in Item 2 of the Disclosure Document, or an affiliate offering franchises under the franchisor's principal trademark:

A. Has an administrative, criminal or material civil action pending against that person alleging a violation of a franchise, antitrust or securities law, fraud, unfair or deceptive practices, or comparable allegations. In addition, the franchisor must include actions other than ordinary 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. If so, the franchisor must disclose the names of the parties, the forum, nature, and current status of the pending action. The franchisor may include a summary opinion of counsel concerning the action if a consent to use of the summary opinion is included as part of the Disclosure Document.

B. Has during the ten year period immediately before the date of the Disclosure Document been convicted of a felony or pleaded *nolo contendere* to a felony charge; or been held liable in a civil action by final judgment or been the subject of a material action involving violation of a franchise, antitrust or securities law, fraud, unfair or deceptive practices, or comparable allegations. If so, the franchisor must disclose the names of the parties, the forum and date of conviction or date judgment was entered, penalty or damages assessed and/or terms of settlements.

C. Is subject to a currently effective injunctive or restrictive order or decree relating to the franchise or under a federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law resulting from a concluded or pending action or proceeding brought by a public agency. If so, the franchisor must disclose the name of the person, the public agency and court, a summary of the allegations or facts found by the agency or court and the date, nature, terms and conditions of the order or decree.

Relationship Statutes and Court Decisions

Certain states have statutes (cited below), and those states and others may have court cases, which may govern your relationship with the franchisor and supersede the terms of your franchise agreement, including the areas of choice of law, choice of forum, waivers, releases, periods of limitation, transfer, termination and renewal of your franchise.

ALASKA

ALASKA STAT. §§ 45.45.700 to .790.

ARKANSAS

Franchise Practices Act, ARK. CODE ANN. §§ 4-72-201 to -210.

CALIFORNIA

Franchise Investment Law, CAL. CORP. CODE §§ 31000-31516.
Franchise Relations Act, CAL. BUS. & PROF. CODE §§ 20000-20043.

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

Litigation Disclosure

a. The franchisor, any person or franchise broker in Item 2 of the FDD is not subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

Termination and Nonrenewal

b. California Business and Professions Code 20000 through 20043 provide rights to you concerning termination, transfer or nonrenewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

Bankruptcy Disclosure

c. The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law. (11 U.S.C.A. Sec. 101 et seq.).

Covenants Not to Compete

d. The franchise agreement contains a covenant not to compete, which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

Liquidated Damages

e. The franchise agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

Arbitration

f. The franchise agreement requires binding arbitration. The arbitration will occur at the site indicated on the cover page of the Disclosure Document, with the costs to be borne by the losing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

Choice of Law and Forum

g. The franchise agreement requires application of the laws of the jurisdiction stated on the cover page of the Disclosure Document. This provision may not be enforceable under California law.

Modification of Existing Franchise

h. 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.

Waivers and Releases

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

Earnings Claims Figures

j. The earnings claims figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchise business. Franchisees or former franchisees, listed in the offering circular, may be one source of this information.

Exemption for Internet Advertisement

k. The California Franchise Investment Law provides that internet advertisements may be exempt from the requirements of Corp. Code § 31156 for filing advertisements with the Commissioner, provided that the franchisor meets all of the requirements under Corp. Code § 310156.3.

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT www.dbo.ca.gov.

Food Service Regulations

I. The State of California has codified regulations specific to the food service industry which may be applicable to you. You may refer to California Plan Check Guide for Retail Food Facilities at http://www.ccdeh.com/resources/documents/food-safety-guidelines-1/152-california-plan-check-guide-for-retail-food-facilities-2/file. For further requirements, please see the California Retail Food Code at http://www.cdph.ca.gov/services/Documents/fdbRFC.pdf.

CONNECTICUT

Franchises, CONN. GEN. STAT. §§ 42-133e to -133h.

DELAWARE

Franchise Security Law, DEL. CODE ANN. tit. 6, §§ 2551-2556.

FLORIDA

Covenants Not To Compete

FLA. STAT. § 542.335.

HAWAII

Franchise Investment Law, HAW. REV. STAT. §§ 482E-1 to –12.
Franchise Rights and Prohibitions, HAW. REV. STAT. § 482E-6.

ILLINOIS

Illinois Franchise Disclosure Act (815 ILCS 705/1 et seq.)

Choice of Law and Forum

Illinois law governs the agreements between the parties to this franchise.

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside of the State of Illinois is void. However, arbitration may occur outside of Illinois. 815 ILCS 705/4 (West 2014).

Waivers and Releases

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void. 815 ILCS 705/41 (West 2014).

Termination and Nonrenewal

Your rights upon termination and non-renewal of a Franchise Agreement are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act. 815 ILCS 705/19, 20 (West 2014).

INDIANA

Franchises, IND. CODE tit. 23, art. 2, ch. 2.5, §§ 1-51.
Deceptive Franchise Practices, IND. CODE tit. 23, art. 2, ch. 2.7, §§ 1-7.

Choice of Law and Forum

A franchise agreement requiring resolution of disputes in a forum other than Indiana is not enforceable. CODE § 23-2-2.7-1(10). Additionally, a franchise agreement requiring application of the laws of a jurisdiction other than Indiana is subject to any superseding provisions in Sections 23-2-2.5 and 23-2-2.7 of the Code. The risk factor statements on the Disclosure Document cover page indicating that disputes must be resolved in a state other than Indiana, and that the laws of a state other than Indiana apply, do not apply in Indiana.

Covenants Not To Compete

A franchisor cannot require a franchisee to covenant not to compete with the franchisor for more than three years after the termination or nonrenewal of a franchise, or in an area greater than the franchisee's exclusive area, or if the franchisee has no exclusive area, in more than a reasonable area. CODE § 23-2-2.7-1(9). Under Indiana law, a franchisee may not be liable for violations of covenants against competition by third parties.

Indemnification

To the extent required by Indiana law, a franchisee need not provide any indemnification for liability caused by the franchisee's proper reliance on or use of procedures or material provided by the franchisor or by the franchisor's negligence.

Periods of Limitation

Under Code § 23-2-2.5-30, an action must be brought within three years after the franchisee's discovery of the facts of a violation and, under Code § 23-2-2.7-7, within two years after the date of a violation.

Territories

A franchisor may not establish a franchisor-owned outlet engaged in a substantially identical business to that of the franchisee within the exclusive territory granted to the franchisee by the franchise agreement; or, if no exclusive territory is designated, the franchisor may not compete unfairly with the franchisee within a reasonable area. CODE §§ 23-2-2.7-1(2) and 23-2-2.7-2(4).

Waivers and Releases

Code § 23-2-2.7-1(10) prohibits any limitation on litigation for breach of a franchise agreement, such as a reservation of rights to injunctive relief, liquidated damages or any other limitation on damages or remedies. A franchisee may not be required to recognize irreparable harm. Indiana law prohibits requiring a franchisee to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to release any person from liability imposed by Indiana franchise laws.

IOWA

Franchises, IOWA CODE §§ 523H.1 to .17.
Franchise Agreements, IOWA CODE § 537A.10.

Transfer

A franchisor may require the following conditions to transfer: (1) that transferee successfully completes training; (2) payment of a transfer fee to reimburse the franchisor for the franchisor's actual expenses directly attributable to the transfer; (3) that franchisee payor makes provision acceptable to the franchisor to pay any amount due the franchisor or its affiliate; (4) that financial terms of the transfer comply at the time of the transfer with the franchisor's current financial requirements for franchisees. Code §§ 537A.10(5)(c)(1 to 4). Under Code § 537A.10(5)(e), a transfer by a franchisee is deemed to be approved 60 days after the franchisee submits the request for consent to the transfer, unless the franchisor withholds consent to the transfer in writing, specifying the reason(s) for withholding consent. The written notice must be delivered to the franchisee prior to the expiration of the sixty-day period. Any such notice is privileged and is not actionable based upon a claim of defamation.

Termination

A franchisor shall not terminate a franchise prior to the expiration of its term except for good cause. Code § 537A.10(7)(a).

Nonrenewal

A franchisor shall not refuse to renew a franchise unless the franchisee has been notified of the franchisor's intent not to renew at least six months prior to the expiration date or any extension of the franchise agreement and other state specific conditions are satisfied regarding good cause. Code. § 537A.10(8)(a)(1).

MARYLAND

Franchise Registration and Disclosure Law, MD. CODE ANN., BUS. REG. §§ 14-201 to -233.
Fair Distributorship Act, MD. CODE ANN., COM. LAW II §§ 11-1301 to -1307.

Choice of Law and Forum

Section 14-216(c)(25) of the Maryland Franchise Law requires a franchisor to file an irrevocable consent to be sued in Maryland. A franchisee may sue in Maryland for claims arising under that Law.

Periods of Limitation

Under Section 14-227(e) of the Maryland Franchise Law, a franchisee may bring a lawsuit in Maryland for claims arising under that Law for a period of three years after a franchise is granted.

Waivers and Releases

Section 14-226 of the Maryland Franchise Law and Section 02.02.08.16L of the Code of Maryland Regulations prohibit a franchisor from requiring a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing, renewing or assigning a franchise. When prospective franchisees disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Maryland Law when purchasing a franchise, such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Law. Any general release required as a condition of renewal, sale, transfer or assignment shall not apply to any liability under the Law.

MICHIGAN

Franchise Investment Law, MICH. COMP. LAWS §§ 445.1501 to .1546.

Arbitration

Any provision requiring that arbitration or litigation be conducted outside of Michigan is void and unenforceable. A franchisee may enter into an agreement, at the time of arbitration, to conduct arbitration at a location outside of Michigan. LAWS § 445.1527(f).

Covenants Not To Compete

LAWS §§ 445.771 *et seq*.

Franchisee Associations

Provisions prohibiting franchisees from joining franchisee associations are void and unenforceable. LAWS § 445.1527(27)(a).

Relationship Laws

Any provision allowing a franchisor to terminate a franchise prior to the expiration of its term except for good cause is void and unenforceable. Good cause includes 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 and a reasonable opportunity, which need not be more than 30 days, to cure the failure. LAWS § 445.1527(27)(c).

Any provision that allows a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures and furnishings is void and unenforceable. 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 provision of the law applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by an agreement from continuing to conduct substantially the same business under another trademark or name in the same area after the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of the franchisor's intent not to renew the franchise. LAWS § 445.1527(27)(d).

Any provision allowing the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances is void and unenforceable. A renewal provision is not required. LAWS § 445.1527(27)(e).

Any provision that allows the franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause, is void and unenforceable. Good cause includes: (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, (iii) the unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations, and (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. LAWS § 445.1527(27)(g).

Any provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor is void and unenforceable. The law does not prohibit provisions allowing a franchisor to exercise a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, or allowing a franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in Section 445.1527(27)(c) of the Law. LAWS § 445.1527(27)(h).

Any provision that permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee is void and unenforceable unless provision has been made for providing the required contractual services. LAWS § 445.1527(27)(i).

Waivers and Releases

A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives the franchisee of rights under the Law is void and unenforceable, but the settlement of disputes is not prohibited. LAWS § 445.1527(27)(b).

MINNESOTA

Franchises, MINN. STAT. §§ 80C.01 to .30.

Choice of Law and Forum

Nothing in the franchise agreement shall in any way abrogate or reduce any rights of the franchisee as provided for in Chapter 80C of the Statutes. STATUTES § 80C.21 and MINN. R. 2860.4400J. A risk factor statement on the Disclosure Document cover page that a franchisee must litigate in a state other than Minnesota does not apply in Minnesota.

Liquidated Damages

Liquidated damage provisions are void. MINN. R. 2860.4400J.

Period of Limitation

An action for a violation of Chapter 80C of the Statutes may not be commenced more than three years after the cause of action accrues. STATUTES § 80C.17(5).

Relationship Laws

Except in certain specified cases, a franchisee must be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement. STATUTES § 80C.14(3)-(5).

Any termination penalty provision is void. MINN. R. 2860.4400J.

Trademarks

The Commissioner has determined that it is unfair for the franchisor not to protect the franchisee's right to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the name within the intent of Section 80C.12(1g) of the Minnesota Statutes.

Waivers and Releases

A franchisee cannot assent to a release, assignment, novation or waiver of liability imposed by Minnesota law, waive rights to a jury trial or to any procedure, forum, or remedies provided by the laws of Minnesota, or consent to the franchisor obtaining injunctive relief, but the voluntary settlement of disputes is not prohibited. STATUTES § 80C.21 and MINN. R. 2860.4400D and .4400J.

MISSISSIPPI

Franchises, MISS. CODE ANN. §§ 75-24-51 to -63.

MISSOURI

Franchises, MO. REV. STAT. §§ 407.400 to .420.

NEBRASKA

Franchise Practices Act, NEB. REV. STAT. §§ 87-401 to -410.

NEW JERSEY

Franchise Practices Act, N.J. REV. STAT. §§ 56:10-1 to -12.

NEW YORK

Franchises, N.Y. GEN. BUS. LAW §§ 680-695.

Bankruptcy Disclosure

Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular has: (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 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 the officer or general partner of the franchisor held this position in the company or partnership.

Choice of Law and Forum

The franchise agreement has been made and accepted in the state listed on the cover page of the Franchise Disclosure Documents and it will be interpreted in accordance with and governed by the laws of that state and any applicable federal and state franchise laws. You hereby consent to jurisdiction in that state. However, 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.

Litigation Disclosure

In addition to the general litigation disclosure requirements applicable to all states, as described above, New York requires the disclosure of all pending actions alleging a felony or misdemeanor; all felony convictions; any misdemeanor conviction within the past ten years; any currently effective order of any national securities association or exchange (as defined in the Securities and Exchange Act of 1934) suspending or expelling such person from membership; and any currently effective injunction or order relating to business activity as a result of an action brought by a public agency, including actions affecting a license as a real estate broker or sales agent. LAW § 683.2(e) and N.Y. COMP. CODES R. & REGS. tit. 13, § 200.2.

Termination and Nonrenewal

You may terminate the franchise agreement on any grounds available by law.

Litigation Disclosure

In addition to the general litigation disclosure requirements applicable to all states, as described above, New York requires the disclosure of all pending actions alleging a felony or misdemeanor; all felony convictions; any misdemeanor conviction within the past ten years; any currently effective order of any national securities association or exchange (as defined in the Securities and Exchange Act of 1934) suspending or expelling such person from membership; and any currently effective injunction or order relating to business activity as a result of an action brought by a public agency, including actions affecting a license as a real estate broker or sales agent. LAW § 683.2(e) and N.Y. COMP. CODES R. & REGS. tit. 13, § 200.2.

Waivers and Releases

All rights enjoyed by the franchisee and any causes of action arising in its favor from the provisions of the General Business Law of the State of New York and the regulations thereunder shall remain in force; it being the extent of this proviso that the non-waiver provisions of Sections 687.4 and 687.5 of the Law be satisfied.

NORTH DAKOTA

Franchise Investment Law, N.D. CENT. CODE §§ 51-19-01 to -17.

Arbitration

The Commissioner has determined that franchise agreements which provide that the parties agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business are unfair, unjust or inequitable within the intent of Section 51-19-09(i) of the Law.

Choice of Law and Forum

The Commissioner has determined that franchise agreements which provide that the parties agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business, or which require franchisees to consent to the jurisdiction of courts outside of North Dakota, or which specify that the parties are to be governed by the laws of a state other than North Dakota, are unfair, unjust or inequitable within the intent of Section 51-19-09(i) of the Law.

Covenants Not To Compete

N.D. CENT. CODE § 9-08-06. Covenants not to compete may not be enforceable in North Dakota. The Commissioner has determined that covenants restricting competition contrary to Section 9-08-06 of the Law, without further disclosing that such covenants may be subject to this Law, are unfair, unjust, or inequitable within the intent of the Section 51-19-09(i) of the Law.

Liquidated Damages

The Commissioner has determined that liquidated damages provisions are unfair, unjust and inequitable within the intent of Section 51-19-09(i) of the Law.

Termination

The Commissioner has determined that provisions consenting to termination are unfair, unjust and inequitable within the intent of Section 51-19-09(i) of the Law.

Periods of Limitation

The Commissioner has determined that requiring a franchise to consent to limit its claims to those that are brought within a certain time frame is unfair, unjust and inequitable within the intent of Section 51-19-09(i) of the Law.

Waivers and Releases

The Commissioner has determined that requiring a franchisee to consent to a waiver of trial by jury, or to consent to a waiver of exemplary and/or punitive damages, is unfair, unjust and inequitable within the intent of Section 51-19-09(i) of the Law.

OKLAHOMA

Covenants Not To Compete

OKLA. STAT. § 15-217-19.

OREGON

Franchise Transactions, OR. REV. STAT. §§ 650.005 to .085.

RHODE ISLAND

Franchise Investment Act, R.I. GEN. LAWS §§ 19-28.1-1 to 19-28.1-34.

Choice of Law and Forum

A provision in a franchise agreement restricting jurisdiction or venue to a forum outside Rhode Island or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under the Act. LAWS § 19-28.1-14.

SOUTH DAKOTA

Franchise Investment, S.D. CODIFIED LAWS §§ 37-5B-1 to -53.

Arbitration

A written provision in a franchise contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of the contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of the contract, transaction, or refusal, is valid, irrevocable, and enforceable except upon such grounds as exist at law or in equity for the revocation of any contract. However, any condition, stipulation, or provision requiring a franchisee to waive compliance with or relieving a person of a duty or liability imposed by or a right provided by this chapter or a rule or order under this chapter is void. S.D. CODIFIED LAWS § 53-5B-21.

Liquidated Damages

Liquidated damage provisions are void. S.D. CODIFIED LAWS § 53-9-5.

Waivers and Releases

No person may, directly or indirectly, in connection with the offer or sale of a franchise disclaim or require a prospective franchisee to waive reliance on any representation made in the disclosure document or in its exhibits or amendments. However, this provision is not intended to prevent a prospective franchisee from voluntarily waiving specific contractual terms and conditions set forth in his or her disclosure document during the course of franchise sale negotiations S.D. CODIFIED LAWS § 53-5B-26(8).

VIRGINIA

Retail Franchising Act, VA. CODE ANN. §§ 13.1-557 to -574.

Relationship Laws

Any “cross-default” provision in a franchise agreement in which a default by a franchisee on one agreement will cause a default in any other agreements with the franchisor is not enforceable when applied to a franchisee in Virginia because Virginia law prohibits any provision that allows a franchisor to cancel a franchise without reasonable cause or to use undue influence to induce a franchisee to surrender any right given to him by any provision in the franchise. § 13.1-564.

WASHINGTON

Franchise Investment Protection Act, WASH. REV. CODE §§ 19.100.010 to .940.

Arbitration

In any arbitration involving a franchise governed by Washington law, 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. Interpretive Statement No. FIS-4.

Choice of Law and Forum

In the event of a conflict of laws, the provisions of Chapter 19.100 of the Act shall prevail. Policy Statement No. FPS-1.

Covenants Not To Compete

Every contract, combination, in form of trust or otherwise, or conspiracy in restraint of trade or commerce is hereby declared unlawful. Washington Revised Code §19.86.030

Termination and Renewal

Section 19.100.180 of the Act and court decisions may govern the relationship between the franchisor and the franchisee and supersede the terms of the franchise agreement, including provisions relating to the termination and renewal of the franchise agreement.

Transfer Fees

A franchisor may collect transfer fees to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer. Interpretive Statement No. FIS-2.

Waivers and Releases

A release or waiver of rights by a franchisee shall not include rights under the Act except when executed pursuant to a negotiated settlement after the franchise agreement is in effect and where the parties are represented by independent counsel. CODE § 19.100.220(2). Provisions 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.

WISCONSIN

Franchise Investment Law, WIS. STAT. §§ 553.01 to .78.
Fair Dealership Law, WIS. STAT. §§ 135.01 to .07.

Relationship Laws

To the extent any provisions of the franchise agreement regarding notice of termination or a change in the franchise agreement conflict with Section 135.04 of the Wisconsin Fair Dealership Law, the Wisconsin law will apply.

PUERTO RICO

Dealers' Contracts, P.R. LAWS ANN. tit. 10, §§ 278-278d.

VIRGIN ISLANDS

Franchised Business, V.I. CODE ANN. tit. 12A, §§ 130-139.

IN WITNESS WHEREOF the parties have signed this State Law Addendum as of this ___ day of __________, 20__.

FRANCHISEE **[use for a corporation, partnership, limited liability company, trust, or other form of entity]:**	**FRANCHISEE** **[use for a sole proprietorship or ownership by multiple individuals]:**
______________________________ (Full Legal Name of Entity)	______________________________ (Signature)
By: ______________________________ (Signature)	______________________________ (Type or Print Name)
______________________________ (Type or Print Name)	______________________________ (Signature)
Its: ______________________________ (Title)	______________________________ (Type or Print Name)

FRANCHISOR:

By: ______________________________
(Signature)

____
(Type or Print Name)
Its:______________________________

CLASSY CLOSETS FRANCHISE AGREEMENT

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This Classy Closets Franchise Agreement (the "**Agreement**") is made as of this _____ day of _________________, 20__ ("**Effective Dat**e") by and between CHRLS Enterprises, Inc., an Arizona corporation ("**Franchisor**" or "**Classy**"), and the undersigned franchisee ("**Franchisee**"), whose full name and address are set forth in Exhibit 1 to this Agreement.

1. GRANT OF LICENSE.

1.1 Recitals. Classy and its affiliates have developed a business system for the design and installation of custom storage solutions for homes and offices, using Classy Closets brand manufactured components. Classy has the exclusive right to grant franchises for the operation of franchised Classy Closets businesses that design and install custom storage solutions for homes and offices at retail, using Classy Closets brand manufactured components. Franchisee has applied to Classy for a franchise to operate a single retail Classy Closets business (the **"Franchise Business"**).

1.2 Grant. In consideration of Franchisee's representations and the mutual agreements herein contained, Classy hereby grants to Franchisee, and Franchisee hereby accepts, a nonexclusive right to operate a retail Franchise Business purchasing, selling and installing Classy Closets brand products and services, including a license to use the System, including the Marks, the Confidential Information and the Manual (all as specified in Article 12 hereof) solely in connection with the operation of the Franchise Business, subject to the terms and conditions of this Agreement.

1.3 Opening. Within three months after the Effective Date of this Agreement, Franchisee must commence operating the Franchise Business in compliance with all the provisions of this Agreement.

2. TERRITORY.

2.1 Territory. Franchisee shall conduct the Franchise Business and install Classy Closets products within the area described in Paragraph 2.1 of Exhibit 1 (the "**Territory**"). Franchisee may install Classy Closets products outside of the Territory only with the prior consent of Classy, which Classy may withhold if the location is in another franchisee or dealer's territory or for other reasonable business reasons. While this Agreement is in effect, and subject to the reserved rights of Classy in Section 2.2 below, Classy agrees that it will not install Classy Closets products in homes or offices located in the Territory, and Classy will use reasonable efforts to prevent other franchisees from installing Classy Closets products in homes or offices located in the Territory. Classy may operate or license Classy Closets businesses anywhere outside the Territory. Classy may grant other franchises at any location other than in Franchisee's Territory which may have an adverse effect on the revenues and profitability of existing Franchised Businesses, including Franchisee's Franchised Businesses;

2.2 Population. Classy will estimate the population in Franchisee's Territory using the latest Census. The population for Franchisee's Territory will be listed in Paragraph 2.2 of Exhibit 1 ("**Population**").

2.3 Classy's Reserved Rights.

2.3.1 Contracts for Multiple Locations. Classy may, within or outside of the Territory, provide Classy Closets products and/or installation services: (a) through businesses that have locations both within and outside of the Territory; and (b) to builders of homes or offices; *provided, however,* that Classy shall give Franchisee a first right of refusal to any such business within the Territory if Classy has the right to do so under the terms of its contract for such business. Classy shall provide Franchisee with written notice of any such contract and Franchisee shall have five business days from the time it receives the written notice to exercise any such right of first refusal.

2.3.2 Other Channels of Distribution. Classy may, within or outside of the Territory, sell Classy Closets products through other channels of distribution such as catalogs and internet sales.

2.3.3 Minimum Monthly Sales. Classy will calculate a minimum monthly sales amount by multiplying the Population times a certain cent amount ("**Minimum Monthly Sales**"). The amount of the Minimum Monthly Sales requirement set forth in Paragraph 2.3.3 of Exhibit 1 is subject to adjustment for inflation as provided in Section 5.5. The cents used in the calculation will be determined by the number of years that Franchisee has been a Franchisee. The number of years are determined by starting on the first full calendar month after the Effective Date and continuing on 12 month intervals, as stated in the chart below:

Population	Number of Years	Cents	Minimum Monthly Sales
	1-2	None	N/A
	3	3¢	$___
	4	4¢	$___
	5 –10	5¢	$___

Example – Minimum Monthly Sales. *Franchisee's Territory has a population of approximately 200,000 according to the 2010 Census when Franchisee executes his Franchise Agreement on August 15, 2017. Franchisee's first month for this calculation begins September 1, 2017. For the 1st year ended August 31, 2018 and the 2nd year ended August 31, 2019, Franchisee does not have any Minimum Monthly Sales requirements. During Franchisee's 3rd year, from September 1, 2019 to August 31, 2020, Franchisee's Minimum Monthly Sales will be calculated as 200,000 population times 3 cents which equals $6,000 (200,000 x .03 = $6,000). During Franchisee's 4th year, from September 1, 2020 to August 31, 2021, Franchisee's Minimum Monthly Sales will be calculated as 200,000 population times 4 cents which equals $8,000 (200,000 x .04 = $8,000). During Franchisee's 5th year, from September 1, 2021 to August 31, 2022, Franchisee's Minimum Monthly Sales will be calculated as 200,000 population times 5 cents which equals $10,000 (200,000 x .05 = $10,000). (The above example assumes no adjustment for inflation.)*

2.3.4 Average Monthly Sales. If for any prior "rolling" 3 month period, Franchisee's average monthly Gross Sales ("**Average Monthly Sales")** are less than the Minimum Monthly Sales amount as calculated above, then Classy may, at its option, either (a) authorize another Classy Closets franchisee or an affiliate to sell Classy Closets products and installation services within the Territory or do so itself; or (b) permanently reduce the Territory *provided, however,* that Classy must give Franchisee at least 90 days advance notice and opportunity to increase his Gross Sales to meet the Minimum Monthly Sales requirement during that 90-day period before authorizing another franchisee or an affiliate to conduct business in the Territory or doing so itself and/or before permanently reducing the Territory. Once Classy has authorized another franchisee or an affiliate to conduct business in the Territory (or has begun doing so itself), Classy may continue to allow that other franchisee or affiliate to conduct business in the Territory (or do so itself) even if Franchisee thereafter increases its Gross Sales above the Minimum Monthly Sales requirement. If Classy elects to reduce the Territory, then the Territory will be reduced to a minimum population that is the same percentage of Average Monthly Sales to Minimum Monthly Sales. Classy retains the right to determine the parameters of the reduced Territory in its sole discretion. The new parameters would be disclosed in writing to the Franchisee. Classy will then have all rights that it has outside of the Territory.

> ***Example – Average Monthly Sales vs. Minimum Monthly Sales****.* *Using the same Franchisee as in the above example, if Franchise's Gross Sales for the month ended June 2017 are $6,500, for July 2017 are $6,200 and for August 2017 are $5,800, then the Average Monthly Sales for September 2017 is $6,166 ($6,500 + $6,200 + $5,800 = $18,500 ÷ 3 = $6,166). This amount is compared to Franchisee's Minimum Monthly Sales requirement for September 2017 which is $6,000. In this calculation, Franchisee has met the minimum monthly sales requirement because Franchisee's Average Monthly Sales of $6,166 is greater than Franchisee's Minimum Monthly Sales requirement of $6,000.*
>
> *If your Gross Sales for the month ended June 2017 are $3,500, for July 2017 are $2,200 and for August 2017 are $2,800, then the Average Monthly Sales for September 2017 is $2,833 ($3,500 + $2,200 + $2,800 = 8,500 ÷ 3 = $3,167). Your Average Monthly Sales of $2,833 are less than your Minimum Monthly Sales requirement of $6,000 and you have not met your requirements. Classy may give notice to your that you have 90 days to increase your Gross Sales during that 90-day period or Classy may permit another franchisee, an affiliate or itself to conduct business in the Territory. If sales are not increased during the 90-day period, Classy may also reduce the Territory to a minimum population that is 47% (calculated as 2,833/6000) of the current population in the Territory.*

3. VEHICLE, TOOLS AND SHOWROOM STORE.

3.1 Vehicle. Franchisee must operate the Franchise Business using at least one late model white van or truck in suitable condition and that has a proper appearance, as may be further specified in the Manual, so as to project a favorable image of a Classy Closets Business, equipped with signs bearing the Mark. If Classy determines, in its sole discretion, that the vehicle does not project a favorable image of a Classy Closets Business or meet the standards in the Manual, it may require Franchisee to replace the vehicle. In the event Classy notifies Franchisee that it must replace the vehicle, Franchisee will have 30 days advance notice to obtain a replacement.

3.2 Tools. Franchisee must at all times have all of the equipment and tools needed for the operation of the Franchise Business as specified in the Manual.

3.3 Showroom Store. Franchisee is not required to have a Classy Closets showroom store ("**Showroom**"), and Classy will not provide Franchisee with any guidelines or assistance in connection with obtaining such a Showroom. However, Franchisee may at its option establish one or more Showrooms in the Territory. If at any time Franchisee elects to have a Showroom, or relocates a Showroom, the location, layout, appearance, signage and product displays for the Showroom shall be subject to the prior approval of Classy, which shall not be unreasonably withheld or delayed.

3.4 **Maintenance and Repairs.** Franchisee, at his sole cost and expense, shall maintain in safe, clean and first class condition, all vehicles, tools, equipment, signs, and if applicable, all Showroom leasehold improvements, fixtures and furnishings, used in connection with the operation of the Franchise Business.

4. FEES.

4.1 **Initial Franchise Fee.** Upon the execution of this Agreement, Franchisee shall pay Franchisor the "**Franchise Fee**" specified in Section 4.1 of Exhibit 1. Franchisee acknowledges that the Franchise Fee is nonrefundable and fully earned by Franchisor upon execution of this Agreement, and that the granting of this Franchise constitutes the consideration for the payment of the Franchise Fee.

4.2 **Royalty Fees.** For the first partial month if any and the first full twelve months that this Agreement is in effect, Franchisee shall pay Classy a fixed nonrefundable monthly royalty fee ("**Minimum Royalty Fee**") in the amount specified in Paragraph 4.2 of Exhibit 1, payable for each month on or before the 10th day of the following month. The Minimum Royalty Fee will be prorated for the first month. The Minimum Royalty Fee payable pursuant to this Section 4.2 is subject to adjustment for inflation as provided in Section 5.5. After twelve full months have passed, Franchisee shall pay Classy a nonrefundable monthly royalty fee of either (a) 5% of Franchisee's average monthly Gross Sales for the prior twelve-month period ("**Standard Royalty Fee**") or (b) the Minimum Royalty Fee, whichever is higher, in a fixed monthly payment, payable for each month on or before the 10th day of the following month through December of each year. In January of each year, Classy will recalculate the Standard Royalty Fee for the prior twelve months. At its option, Classy may round the Standard Royalty Fee down. Collectively, the Minimum Royalty Fee and the Standard Royalty Fee may be referred to as "**Royalty Fees**."

> ***Example.*** *Franchisee's Territory has a population of approximately 200,000 according to the 2010 Census when Franchisee executes his Franchise Agreement on August 15, 2017. Franchisee owes a prorated royalty fee on September 10, 2018 for the prior partial month of August 2017. Assuming that Franchisee's Minimum Royalty Fee is $500, Franchisee will pay Classy $500 a month beginning with September 2017 (payable on October 10, 2017 and the 10th of each month thereafter) through August 2018 when Franchisee will pay Classy $500 on September 10, 2018. In September 2018, Classy will calculate Franchisee's average monthly Gross Sales for the prior twelve-month period of September 2017 to August 2018 and multiply that amount times 5% to calculate the Standard Royalty Fee. Franchisee would pay either the Standard Royalty Fee or the Minimum Royalty Fee, whichever is higher, in the same fixed amount for each month, beginning September 2018 (due October 10, 2018) and continuing through December 2018 (due on the 10th of each following month until January 10, 2019). In January 2019, Classy would recalculate the Standard Royalty Fee based on the prior twelve-month period from January 2018 through December 2018. Franchisee would pay either the Standard Royalty Fee or the Minimum Royalty Fee, whichever is higher, in the same fixed amount for each month, beginning January 2019 (due February 10, 2019) and continuing through December 2019 (due on the 10th of each month until January 10, 2020).*

4.3 Gross Sales. "**Gross Sales**" shall mean the total gross sales and full purchase price derived from all goods and services sold and/or installed, whether wholly or partly for cash or on credit or for trade, and from all business conducted in, on or from the Franchise Business or arising out of its operations, excluding: (a) any sales taxes or excise taxes which are separately stated and collected by Franchisee from customers and paid to any federal, state or local taxing authority; and (b) the amount of any coupons, discounts or refunds given to customers. If Franchisee does not provide the necessary information for Classy to calculate Gross Sales, then Classy may estimate Franchisee's Gross Sales based on Franchisee's product purchases or prior Gross Sales information until such time as Franchisee provides the necessary information to Classy.

4.4 Area Branding Cooperatives. Whenever there is more than one Classy Closets business in a particular marketing area, Classy may establish a cooperative to do joint branding and educational and promotional programs for that area (an "**Branding Cooperative**"). Classy may establish, realign and terminate cooperative marketing areas from time to time for the overall benefit of the System.

4.4.1 Participation. Each Classy Closets business in the marketing area designated by Classy shall automatically be a member of that Branding Cooperative, and shall participate actively to the fullest extent permitted by law in all of its approved Branding Cooperative programs. Each Classy Closets business in an Branding Cooperative (including any Classy Closets business operated by Classy or any of its affiliates) shall be entitled to one vote on any matter being considered by the Branding Cooperative, except that if a franchisee is not in Good Standing (as defined in Section 9.2), that franchisee shall not be entitled to vote on any matter while not in Good Standing. If Classy does not operate a Classy Closets business in a marketing area, it shall be a non-voting advisory member of the Branding Cooperative for that area, entitled to one week's advance notice of all meetings as provided in Section 16.2, and to attend all meetings of the Branding Cooperative.

4.4.2 Assessments. Upon the approval of any branding, educational or promotional programs by the Branding Cooperative and Classy, Franchisee and all members of the Branding Cooperative (including those who were not present, voted against a program, or were ineligible to vote because they were not in Good Standing) shall be obligated to contribute to the costs of the programs, and the general expenses of the Branding Cooperative, allocated as determined by a vote of the members of the Branding Cooperative. Classy shall have the right, but not the obligation, to enforce Franchisees' financial obligations to the Branding Cooperative.

4.5 Branding Fee. Franchisee shall pay an branding fee, as a nonrefundable contribution for research, development, quality assurance, Branding, and promotion for the System ("**Branding Fee**") of up to 4% of Franchisee's Gross Sales, calculated, due and payable into the "Branding Fund" in the same manner and at the same times as Royalty Fees. Currently, the Branding Fee is not collected.

4.6 Unauthorized Marketing Fee. If Franchisee fails to obtain Classy's prior approval on any branding material before use as required in Section 10.4 or Franchisee fails to stop using any branding materials that Classy has withdrawn its approval to use, then Classy will impose the then-current unapproved marketing fee per violation. The current unapproved marketing fee will be stated in the Manual. The current fee is $200 per violation. Such a fee will continue to be imposed on a monthly or per use basis if Franchisee continues to use unauthorized materials or fail to correct the unapproved branding after notification.

4.7 Noncompliance Fee. If Franchisee fails to comply with Classy's requirements after due notice, then, in additional to all other remedies in this Agreement or in substitution of any other remedies, as Classy may elect, Classy has the right to impose its then-current noncompliance fee per violation. The current noncompliance fee will be stated in the Manual. The current fee is $200 per violation. Such a fee will continue to be imposed on a monthly or per violation basis if Franchisee continues to violate Classy's standards or requirements.

5. OTHER PAYMENT TERMS.

5.1 Payments by Electronic Funds Transfer. Classy may require all payments to Classy are paid by electronic funds transfer from Franchisee's principal bank account to Classy's bank if Franchisee is delinquent in making payments to Classy more than once in a six-month period, if Franchisee delivers any check without sufficient funds to deposit the check or if Classy is requiring all of its franchisees to pay by electronic funds transfer. If so, Franchisee must sign and deliver to Classy such documents and authorizations as may be required by Franchisee's bank and Classy's bank to accomplish such electronic funds transfers. Franchisee agrees to have sufficient funds in the bank account from which electronic fund transfers will be made to cover all payments Franchisee is required to pay Classy. Franchisee shall be obligated to pay, or reimburse Classy for, all fees and charges for reprocessing electronic funds transfers if Franchisee does not have sufficient funds in Franchisee's bank account.

5.2 Taxes. Franchisee shall be responsible for federal, state, and local sales, use, personal property, inventory, and other taxes that may be assessed against Franchisee on any inventory and other property in Franchisee's possession. Franchisee shall also be responsible for any local, state and federal excise taxes on shipments to Franchisee to the extent that such excise taxes are not included in Classy's prices.

5.3 Delinquent Interest. All late payments due to Classy from Franchisee shall bear interest ("**Delinquent Interest**") at 1.5% per month, but not to exceed the maximum commercial usury rate allowed by law, from the date due until payment in full.

5.4 Guaranties. If Franchisee is a corporation or any other form of legal entity, all owners of such corporation or legal entity(ies) regardless of ownership percentage (the "**Guarantor(s)**") shall approve this Agreement in writing, furnish any personal financial information reasonably requested by Classy, and execute a personal guaranty of Franchisee's payments and performance obligations under this Agreement and any agreement executed upon renewal, in form and substance substantially in the form of Exhibit 2 attached hereto (the "**Guaranty**"). Individuals who subsequently acquire or otherwise succeed to such a position or interest shall also be required to execute a Guaranty. To the extent required by law for any Guaranty to be enforceable, spouses must also sign the Guaranties.

5.5 Cost-of-Living Adjustments. Classy may, at its option and at any time, upon at least 30 days' advance notice to Franchisee, adjust any fixed fee, or fixed dollar requirement or number in this Agreement for inflation by giving Franchisee advance notice of any such adjustment. The adjustment shall be calculated by using the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, Urban Wage Earners and Clerical Workers, United States City Average (the "**Index**"), and multiplying the fixed number as of the Effective Date of this Agreement by a fraction, the denominator of which is the Index for the month immediately prior to the date of this Agreement (the "**Base Index**"), and the numerator of which is the Index for the month immediately prior to the date of the notice of any adjustment (the "**Current Index**"). This formula is also expressed as:

$$\text{Original Number} \times \frac{\text{Current Index}}{\text{Base Index}} = \text{Adjusted Number}$$

5.6 Payments To Be Net of Taxes.

5.6.1 Franchisor Taxes. All payments made by Franchisee under this Agreement shall be made to Franchisor in the amounts specified hereunder, deducting only Franchisor Taxes (as defined below) if and to the extent any governmental authority legally requires Franchisee to withhold and pay such Franchisor Taxes directly to the governmental authority. "**Franchisor Taxes**" shall mean net income taxes, franchise taxes imposed in lieu of net income taxes, and gross receipts taxes, imposed on Franchisor as a result of a nexus or connection between Franchisor and the jurisdiction of the governmental authority imposing the tax (such as Franchisor owning property, or maintaining an office or having resident employees in the jurisdiction); *provided, however,* that Franchisor Taxes shall not include any taxes imposed on Franchisor based solely on Franchisor having executed, delivered or performed its obligations, or received payments under, or enforced, this Agreement.

5.6.2 Taxes To Be Paid by Franchisee. If any governmental authority imposes any Other Taxes (as defined below) on the payments made by Franchisee to Franchisor under this Agreement, the amounts payable to Franchisor by Franchisee shall be increased to the extent necessary to yield to Franchisor, after payment of the Other Taxes, the amounts specified under this Agreement, which shall be deemed net amounts. "**Other Taxes**" shall mean all taxes other than Franchisor Taxes, including without limitation income, stamp, receipts, or other taxes, levies, imposts, duties, charges, fees, deductions, or withholdings, imposed, levied, collected, withheld or assessed by any governmental authority.

5.7 Confidentiality of Financial Information. Classy shall not disclose or communicate to others (including its other franchisees) any confidential financial information it obtains from Franchisee except for the following purposes: (a) as may be required in defense or prosecution of litigation; (b) in connection with an Assignment (as defined in Section 13.1) by Franchisee pursuant to Article 13; (c) as required by law, a court order or government agency; (d) to the extent required by law if Classy, at its option, elects to prepare and disseminate publicly consolidated statements or reports regarding the purchases of Classy Closets products made by its franchisees; (e) in announcements of purchases made by the top producing franchisees; (f) to a financial institution if Franchisee is seeking financing or (g) in general terms, to a prospective franchisee in connection with a transfer of the Franchise Agreement. Classy may provide any notices of default or noncompliance to any landlord, financial institution, or prospective franchisee.

6. CLOSET PRODUCTS AND MATERIALS. Franchisee may either purchase Classy Closets products from Classy's affiliate Classy Closets Etc., Inc., and/or Classy's other authorized manufacturers as provided in Section 6.1 or manufacture closet materials to be installed as Classy Closets® products as provided in Section 6.2.

6.1 Purchases of Classy Closets® Products.

6.1.1 Products and Prices. For the purposes of this Article 6, references to Classy shall include all of Classy's affiliates that manufacture Classy Closets products purchased by Franchisee. Classy, in its sole and absolute discretion, has the right, at all times, to modify and/or add any and all types, styles, models and/or sizes, and adjust the wholesale prices for, the Classy Closets products and components it manufactures and sells. Classy shall inform Franchisee of the wholesale prices and available Classy Closets products and components in writing from time to time. Classy shall provide Franchisee 30 days' advance written notice of increases in Classy's prices. The prices charged by Classy to Franchisee shall be the wholesale prices in effect when Classy accepts an order from Franchisee. Classy may recommend resale prices for Classy Closets products and installation services, but Franchisee shall have sole control over the retail prices at which Franchisee sells and installs Classy Closets products.

6.1.2 Credit and Security Interests. All sales by Classy to Franchisee shall be on a cash basis or on such credit or advance payment terms as Classy, in its sole discretion, may establish from time to time. Classy shall not be obliged to extend credit to Franchisee or to assist Franchisee in securing credit. Regardless of the method of payment, Classy shall retain a security interest in all Classy Closets products and other items delivered to Franchisee until Classy receives full payment of all monies owed to Classy. Franchisee must notify Classy in writing of any claim for shortage in a shipment within five business days after receipt of the shipment.

6.1.3 Shipping. All items sold to Franchisee shall be sold F.O.B. from a warehouse or manufacturing facility designated by Classy. If a site draft bill of lading is used, title and risk of loss shall pass to Franchisee when the shipment is delivered to the carrier for delivery to Franchisee. Franchisee shall pay all shipping costs and expenses.

6.1.4 Acceptance of Orders. Classy shall have the right to specify the forms and procedures governing the placement of orders, including without limitation the routing to be used for delivery of accepted orders. No term or condition contained in any request for quotation, purchase order, acknowledgement or other form of communication from Franchisee, except those specifying the quantity, and specifications for Classy Closets products ordered, and shipping instructions, will apply to Classy's sales to Franchisee unless Classy's authorized representative first agrees to it in writing. Classy reserves the right to refuse orders and to withhold shipment to Franchisee until all past due invoices and amounts due under this Agreement are paid in full to Classy.

6.1.5 Shortages. In the event that Classy is restricted in the production, sale or delivery of any order by manufacturing limitations or any act of God, governmental authority, war, terrorism, strikes or any other cause, natural or otherwise, beyond Classy's reasonable control ("**Force Majeure**"), Classy shall not be compelled to honor previously accepted orders, but shall distribute available inventory among all its franchisees and dealers in a fair and equitable manner, and Classy shall not be liable for any such failure or delay in filling orders.

6.1.6 Returns. Franchisee must obtain prior written authorization from Classy in order to return any products purchased from Classy. Classy will provide Franchisee with a merchandise credit for the full wholesale purchase price paid by Franchisee for current products returned Classy in new condition, less a 15% restocking fee. Classy does not accept returns of discontinued or obsolete products, or special order items. Franchisee must prepay all transportation costs. All returns must be packaged to avoid damage.

6.2 Manufacturing of Closet Materials.

6.2.1 Requirements for Manufacturing. Franchisee may manufacture certain materials necessary for a Classy Closets® installation by Franchisee. Franchisee may not sell the items it manufactures at wholesale without Classy's prior approval. Franchisee must provide thirty days advance notice to Classy prior to any manufacturing by Franchisee or Franchisee's purchase of manufacturing equipment. Classy must pre-approve each piece of equipment that is more than a specific minimum cost amount prior to Franchisee's purchase. The minimum cost amount is currently $1,000 but is subject to change and will be stated in the Manual. Machinery and materials must meet any of Classy's specifications stated in the Manual. Certain machinery and materials must be purchased from Classy's authorized suppliers as stated in the Manual. Franchisee acknowledges that Classy may receive rebates from authorized suppliers or authorized manufacturers.

6.2.2 Request for Modification. Franchisee may request a modification of specifications or the approval of a specific vendor for equipment, supplies, or inventory by submitting the forms and information required in the Manual. At a minimum, Franchisee must submit a written request, state the reason for the modification, and provide sufficient technical data to enable Classy to determine if the item meets specifications or if the revised specifications are acceptable. Classy reserves the right to perform such tests as Classy deems necessary to determine if any item meets its specifications or if the requested specification change is acceptable. Classy may charge a fee for its evaluation. Classy will notify Franchisee of its decision within a reasonable time after receipt of Franchisee's request and the required information. If approved, Franchisee may begin using the revised specifications or the supplier will become an authorized supplier from whom Franchisee may purchase the specified goods and services. Classy reserves the right to revoke its authorization upon 30 days written notice to Franchisee.

7. MANUFACTURER'S LIMITED WARRANTY.

7.1 Limited Warranty. For the purposes of this Article 7, references to Classy shall include all Classy's affiliates that manufacture Classy Closets products purchased by Franchisee. Classy warrants that all Classy Closets products purchased from Classy will be free of any defect in workmanship or material at the time of purchase by Franchisee. If any Classy Closets product purchased from Classy is defective in workmanship or material, Classy will, at its option, either repair the defective product, or make an appropriate adjustment in the original sales price to Franchisee, or provide a replacement. If Classy so requests, Franchisee must promptly ship any Classy Closets product that Franchisee believes to be defective back to Classy at Franchisee's expense. The limited warranty in this Section 7.1 extends for so long as Franchisee holds the Classy Closets product in inventory, and for so long as Franchisee's customer occupies the property upon which the allegedly defective Classy Closets product was installed. This limited warranty does not cover normal wear and tear, and is void if the Classy Closets product is misused, or stored or installed by Franchisee in a manner not in compliance with the Manual, or is installed or misused by the customer. All claims under this limited warranty must be made in writing to Classy. All claims by Franchisee's customers must be handled directly by Franchisee, and then passed through by Franchisee to Classy if appropriate. Any warranty claim by Franchisee against Classy that is based on a claim against Franchisee by Franchisee's customer must be made in writing to Classy within ten business days after the customer makes the claim against Franchisee, and Franchisee must cooperate fully with Classy in handling the claim.

7.2 **Disclaimers**.

ALL OTHER GUARANTEES, WARRANTIES, CONDITIONS AND REPRESENTATIONS, EITHER EXPRESSED OR IMPLIED, WHETHER ARISING UNDER ANY STATUTE, LAW, COMMERCIAL USAGE OR OTHERWISE, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE EXCLUDED. IN NO EVENT WILL Classy BE RESPONSIBLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES, FOR LOST PROFITS, OR FOR ANY OTHER DAMAGES.

7.3 Customer Warranties. Franchisee shall participate in all customer warranty programs provided by Franchisor for Classy Closets products and installation services from time to time, and use only the limited warranty forms provided by Classy, as specified in the Manual, and provide a copy of that form to each customer who purchases Classy Closets products and installation services. Franchisee shall honor any warranty for Classy Closets products or installation services presented by any customer located in the Territory. Franchisee may not make any warranties, statements, representations, guarantees, or commitments, orally, in writing, or in any other manner, to customers or in advertising, other than those expressly set forth in printed material supplied by Classy, or otherwise specifically authorized in advance by Classy.

8. SOFTWARE AND HOSTING.

8.1 Computer Software. Franchisor will license to Franchisee at no charge proprietary computer software that Franchisee must use to order Classy Closets products and schedule projects, and Franchisor may, at Franchisor's option and the request of Franchisee, license to Franchisee, upon the payment of periodic fees, additional software for use in the Franchise Business in connection with designing, scheduling and accounting. (Collectively, all such software licensed to Franchisee, together with all manuals for such software, are herein referred to as "**Software**.") Franchisee agrees that it acquires no title or ownership in the Software, and that all right, title and interest in the Software is owned by Franchisor. Franchisor grants to Franchisee a nonexclusive license to use the Software in the operation of the Franchised Business upon a single computer, subject to the terms and conditions of this Agreement, including all of the following terms and conditions:

8.2 Use. Franchisee will use the Software solely with the computer hardware system and third party software specified from time to time in the Manual, and solely at a location approved by Franchisor pursuant to the terms of this Agreement.

8.3 Confidentiality. One copy of the Software will be provided to Franchisee in object code form. Franchisee will make no copies of the Software in any format except for a backup copy as permitted in accordance with the Manual. Franchisee will not create by decompilation or otherwise, the source code programs or any parts thereof from the object code program or from other information made available to Franchisee. Franchisee will not make the Software available to any person or entity, other than to its employees who require access to the Software in order to perform their normal employment duties for Franchisee.

8.4 Modification. Franchisee will make no changes or modifications to the Software, except with the prior written consent of Franchisor, which consent may be withheld for any reason, or for no reason, at the sole and exclusive discretion of Franchisor.

8.5 No Warranty.

THE SOFTWARE WILL BE PROVIDED TO FRANCHISEE "AS IS" WITHOUT WARRANTY OF ANY KIND, EITHER EXPRESSED OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

Franchisor does not warrant that the functions contained in the Software will meet Franchisee's requirements or that the operation of the Software will be uninterrupted or error free.

8.6 Back-up and Archive Copies of Data. Franchisee shall be solely responsible for making and storing its own permanent archive copies of all data on its computers, and for making any periodic back-up copies necessary to restore data in the event of problems with Franchisee's computers.

8.7 Enhancements. Franchisor may periodically provide to Franchisee, as the same may be developed or acquired by Franchisor, revised, updated, enhanced, or substitute proprietary computer software and/or user's manuals, in which case such new software and user's manuals will be deemed to be Software. Unless such revised, updated, enhanced or substitute Software requires Franchisee to obtain new computer hardware, Franchisee must install the new Software in its computer system within ten business days after receiving it. If new computer hardware is required, Franchisee must obtain it and install the new Software within twenty business days after receiving the Software. Immediately after completing such installation, Franchisee must return to Franchisor all copies of all prior editions of the Software.

8.8 Support. Franchisor will make Software support reasonably available to Franchisee by telephone during business hours.

8.9 Hosting Services. Classy offers access rights by Internet or a data line (leased by Franchisee) to a server hosted by Classy or its agent for other types of software such as scheduling software and design software.

8.9.1 Separate License Agreement. Franchisee must purchase a one-time terminal services license from an independent party. Classy will also require Franchisee to sign a separate license agreement. Classy will charge Franchisee additional separate fees for the license for the design software and reserves the right to charge other fees in the future.

8.9.2 Data Responsibilities. Classy will maintain its server, back up data on the server on a commercially reasonable scheduled basis for the purpose of restoration in the event of server problems, and upgrade the server software, operating systems and equipment as needed. Classy is not responsible for interruptions of service caused by events beyond its reasonable control. Franchisee acknowledges that if back-ups must be used to restore data on the server, recently entered data may be lost.

9. TERM AND RENEWAL.

9.1 Term. The term (the "**Term**") of this Agreement is ten years commencing on the Effective Date hereof, unless sooner terminated as provided in Article 14. This term may be extended by Classy in writing for a limited time not to exceed six months to take into account the term of any applicable lease for the Franchised Business.

9.2 Renewals. Upon the expiration of the Term, if Franchisee is then in Good Standing, Franchisee shall have unlimited options to renew the franchise for a term of five years in each case (the "**Renewal Term(s)**"). "**Good Standing**" as used in this Agreement shall mean that Franchisee is not in material default under this Agreement or any other agreement with Classy or any affiliate of Classy, or any agreement with any other third party pertaining to the Franchise Business, and no event shall have occurred and be continuing which, with notice or the passage of time or both, would constitute such a default. Exercise of a renewal option shall be subject to the following conditions:

9.2.1 Notice. Franchisee shall exercise the renewal option by written notice to Classy given not less than six months, and not earlier than nine months, prior to the expiration of the then current Term or Renewal Term. Franchisee's failure to give timely notice shall be deemed a rejection of the renewal option.

9.2.2 Upgrading. Classy may, at its option, require as a condition to renewal that Franchisee perform specified upgrading and/or renovation of the Franchise Business to conform to the current standards and image required of then new Classy Closets businesses.

9.2.3 Renewal Fee and Contract. After compliance with all applicable laws, Franchisee shall pay Classy a renewal fee of $2,500 ("**Renewal Fee**"), and shall execute Classy's then current form of Franchise Agreement, which may contain materially different terms from this Agreement, except that the initial franchise fee shall be waived, and renewal rights shall continue to be as provided in this Section 9.2. The amount of the Renewal Fee shall be subject to adjustment for inflation as provided in Section 5.5.

9.2.4 Territory. Upon receiving notice of Franchisee's election to exercise the renewal option, Classy shall evaluate the population in the Territory according to the most recent census or another independent population based program or service. Franchisee's Territory may be adjusted to maintain the approximate size of the Population, as stated in Paragraph 2.2 of Exhibit 1.

9.2.5 Releases. Franchisee and Classy shall execute general mutual releases of all claims related to this Agreement, subject to their continuing obligations as described in Section 14.5, and subject to an exception for any claim as to which either party has previously given the other written notice.

9.3 Temporary Continuation. In the event Franchisee continues to operate the Franchise Business following expiration, such continuation shall be construed to be an extension only from month-to-month, governed by all of the provisions of this Agreement, and terminable by either party without cause on 30 days' notice.

10. OPERATIONS.

10.1 Conduct of Business. Franchisee shall at all times: (a) conduct the Franchise Business so as to maintain and increase the good will and reputation of the System, the Marks and all Classy Closets businesses; (b) use Franchisee's best efforts to insure that customer service is always maintained at the highest levels; and (c) comply with the operating procedures, including without limitation the Classy Closets design and installation standards, set forth in the Manual.

10.2 No Other Business Using the Marks. Franchisee may not conduct any other business or sell or install any products other than Classy Closets products in connection with Franchisee's use of the Classy Closets Marks or conduct of the Franchise Business unless expressly approved by Classy, which approval Classy may withhold in its sole and absolute discretion. Specifically, and without limitation, Franchisee may not conduct any other business using: the telephone number(s) listed under the Classy Closets name; vehicles bearing the Marks; forms, contracts or stationery as provided in the Manual or bearing the Marks; or employees wearing clothing bearing the Marks. Franchisee may not display or sell any products or services other than Classy Closets products and services from any Showroom displaying Classy Closets products unless expressly approved by Classy, which approval Classy may withhold in its sole and absolute discretion.

10.3 Management and Staffing.

10.3.1 Designated Representative. If Franchisee is a corporation or other legal entity, or if Classy approves an Assignment (as defined in Section 13.1) to such an entity, Franchisee must designate a single individual (the "**Designated Representative**") who must successfully complete initial training as provided in Section 11.1, and be primarily responsible for Franchisee's performance under this Agreement. The Designated Representative must have an aptitude for the operation of the Franchised Business, be a good fit within the System and operation of the Franchised Business by the Designated Representative may not have the potential to adversely affect the reputation of the System. The Designated Representative shall devote his full time best efforts to, and be responsible for the direct, day-to-day full time supervision of the Franchise Business. The appointment of a Designated Representative shall be subject to Classy's approval.

10.3.2 Design and Installation Managers. Franchisee must designate an individual who will be responsible for managing design services for Franchisee ("**Design Manager**"), and an individual who will be responsible for managing installation services for Franchisee ("**Installation Manager**"). The Managers may be an individual Franchisee or the Designated Representative. Each of the Managers, and all subsequent replacements for them, must successfully complete initial training as provided in Section 11.1 and be approved by Classy before assuming their management responsibilities.

10.3.3 Staffing. The Franchise Business shall at all times be staffed with a sufficient number of competent and trained employees, attired as provided in the Manual (and without visible tattoos or visible body piercing), so as to serve customers efficiently and in a manner consistent with System standards. Except for the initial training provided by Franchisor, Franchisee, at his expense, is responsible for training all employees of the Franchise Business.

10.4 Promotion.

10.4.1 Best Efforts. Franchisee must use his best efforts to diligently promote, maintain, and increase the sales of Classy Closets products and installation services.

10.4.2 Telephone Number. Franchisee must obtain a new telephone number at its own expense and solely for the use and benefit of the Franchise Business.

10.4.3 Classy Approval. All branding done by Franchisee shall be subject to Classy's prior approval with respect to form and content (other than pricing). A copy of the proposed branding (specifying the anticipated use or publication date) shall be submitted to Classy at least ten business days prior to use. Classy has the right to require Franchisee to include certain statements in Franchisee's branding related to the System as described in the Manual, including but not limited to statements regarding the availability of franchises, Classy's contact information, and social media information.

10.4.4 Web Sites and Other Social Media. Franchisee may not establish an internet website using Classy's name or Marks or branding the Franchise Business. Classy will establish an internet website with a page providing information about Franchisee. Classy may eliminate the internet website if Classy provides a social media substitute in its place. Franchisee may not have any social media account or have any social media presence that uses Classy's name or Marks or mentions the Franchised Business or its products without Classy's prior approval. Franchisee agrees to provide Classy with the current passwords to any social media account that Franchisee uses to promote the Franchised Business within five days after opening the account, upon any changes, as part of any Transfer, upon termination and otherwise promptly upon Franchisor's request. Franchisee grants Classy the right to access any social media accounts to take corrective action if such branding and postings are in violation of Classy's branding policy, are misleading or misuse the Marks, and to operate such accounts after termination of this Agreement. Classy will own any data collected from any social media site used to promote the franchised business.

10.5 Expenses. Franchisee shall be solely responsible for, and shall pay before delinquent (unless being contested in good faith), all operating expenses and taxes in connection with the operation of the Franchise Business.

10.6 Compliance with Laws. Franchisee shall conduct the Franchise Business in strict compliance with all federal, state, local, and any other applicable laws and regulations. Certain laws and regulations specific to the location and business activities of the Franchisee may conflict with Classy policy, and such laws and regulations shall supersede any conflicting Classy policy. Franchisee is responsible to know of and abide by all applicable laws and regulations in its business activities, and shall retain its own counsel for any and all legal advice regarding the same.

10.6.1 Compliance with Anti Terrorist Laws, Regulations, and Orders. Franchisee and its owners specifically agree to comply with any and all laws, regulations and orders relating to anti-terrorist activities including, but not limited to, Executive Order 13244. Franchisee and its owners confirm that neither Franchisee nor its owners are listed on any federally maintained list of specially designated nationals and blocked entities ("**SDN List**"). Franchisee and its owners agree to not hire or transact any business with any person or entity listed on the SDN List, which is currently available at www.treasury.gov. Franchisee and its owners specifically agree to comply with any state required employment verification programs and any federal employment verification programs such as E-Verify.

10.7 Insurance. Franchisee shall maintain at all times while this Agreement is in effect, at Franchisee's expense, for the Franchise Business, such insurance as may be required by law, the terms of the lease for any Showroom, all leases of the vehicle(s) and equipment used in the Franchise Business, and as provided in the Manual. All insurance obtained by Franchisee shall be in form acceptable to Classy, with insurers rated A or better in "Best's Insurance Guide," shall name Classy as co-insured as its interests may appear, and shall provide for the same advance notice of cancellation or adverse modification to be given to Classy as to Franchisee. Certificates of insurance for at least the minimum required coverages specified in the Manual shall be delivered to and retained by Classy. All insurance policies required by this Section 10.7 shall contain a waiver by the insurance carrier of all subrogation rights against Classy. All required insurance policies shall be renewed, and certificates of insurance, together with evidence of payment of premiums, delivered to Classy, at least 30 days prior to the respective expiration dates of existing policies. Classy may, not more frequently than annually, require additional types of coverage and/or adjust coverage minimums, based on what is then reasonable and customary in the industry.

10.8 Records and Reports.

10.8.1 Requirements. Franchisee will prepare, update and furnish Classy on a current basis all information relating to the operation of the Franchise Business in the format, media and frequency prescribed by Classy from time to time in the Manual including Gross Sales reports. Classy may have access to Franchisee's financial and operational information if Classy provides web hosting services as described in Section 8.9.

10.8.2 Financial Statements. Franchisee will provide to Classy its quarterly income statements within forty-five days after each quarter-end and its annual financial statements, within forty-five days after each year-end. The type of financial statements will be stated in the Manual but will include a balance sheet and income statement at a minimum. Each financial statement shall be prepared in accordance with generally accepted accounting principles and, upon Classy's request, shall be certified to Classy as accurate and complete by Franchisee (if Franchisee is an individual) or by one of Franchisee's officers (if Franchisee is a corporation or another form of legal entity). In addition, if Franchisee has any financial statements compiled, reviewed or audited by a certified public accountant, a copy thereof shall also promptly be provided to Classy. If Classy develops a recommended uniform system of accounting and record keeping, such system will be set forth in the Manual and Franchisee agrees to keep all records for the Franchise Business in conformance with Classy's recommended system.

10.9 Audits. Franchisee will keep and preserve all business records and operations reports, sales tax and other tax returns, bank books, duplicate deposit slips and all other evidence of Gross Sales and business transactions from the operation of the Franchise Business for at least two years. Such records shall be kept at the Franchise Business unless otherwise approved by Classy.

10.9.1 Examination. While this Agreement is in effect and for one year after its termination or expiration, Classy will have the right at any time during normal business hours to examine all documents, records, and tax returns, relating to the Franchise Business. Upon Classy's request, Franchisee will make all such items available for Classy's examination at the Franchise Business or such other location as Classy will determine.

10.9.2 Underreported Amounts. If the examination discloses that the actual Gross Sales for any period exceed those Franchisee reported, then the total amount of Royalty Fees payable on account of the deficiency shall be immediately due and payable, together with Delinquent Interest as provided in Section 5.3. In addition, if the amount of unreported Gross Sales exceeds 4% of actual Gross Sales, Franchisee shall pay all reasonable costs, expenses and overhead incurred by Classy in connection with such examination. Intentional, repeated, or egregious underreported amounts shall be considered a Default of this Agreement as described in Section 14.2.1 of this Agreement.

10.10 Indemnification. Except as otherwise expressly provided in Section 12.4.5, Franchisee agrees to indemnify and hold Classy harmless from and against any and all costs, expenses (including reasonable attorneys' fees and court costs), losses, liabilities, damages, penalties, awards, causes of action, claims and demands whatsoever and however arising, including without limitation those arising out of or affecting this Agreement, the operation of the Franchise Business, or the equipment or supplies used in connection therewith, and whether arising from bodily injury, death, or property damage, or any other violation or injury to others or their rights or interests, or in any other manner.

11. FRANCHISOR SERVICES.

11.1 Initial Training.

11.1.1 Curriculum. Following the execution of this Agreement, and before commencing the Franchise Business, Franchisee must have one to five people attend initial training provided by Franchisor. The Design Manager and the Installation Manager must each attend initial training. The initial training program shall be held in Maricopa County, Arizona, or such other location as Franchisor may reasonably designate.

11.1.2 Expenses. No tuition is charged by Franchisor for the first five or fewer people who attend the initial training program at the same time. Additional people may also attend the initial training program at the same time or thereafter for $50 per person per day, subject to space availability. Manuals will be loaned to those who attend initial training at no charge. Certain other materials used during training are available for optional purchase. Franchisee is responsible for all travel, lodging, food and other personal expenses incurred for himself and any of his employees attending initial training. Franchisor shall not pay salary or any other compensation to anyone for services performed during training.

11.1.3 Completion. If Franchisor determines, in its sole subjective judgment exercised in good faith, during or at the conclusion of initial training, that either the Design Manager or the Installation Manager is not qualified to manage that portion of the Franchise Business, Franchisor may require Franchisee to designate someone else to fill the position(s) and attend initial training.

11.1.4 Confidentiality and Noncompetition Agreement. The Design Manager, the Installation Manager, and each Key Individual (as defined in Section 12.6.1) and every other person who attends initial training must execute Classy's standard form of Confidentiality and Noncompetition Agreement attached hereto as Exhibit 3 before attending training.

11.2 Continuing Training. Classy may, at its sole option, hold refresher and/or additional training programs for Franchisee, its Designated Representative, the Design Manager and/or the Installation Manager, designers, or installers, at location(s) selected by Classy. Such programs may be mandatory or optional. Classy may charge reasonable tuition for any such programs. Franchisee shall be responsible for the travel, lodging, food and other personal expenses of those who attend.

11.3 Assistance. Classy shall provide Franchisee with on-site assistance when deemed necessary in Classy's discretion, and Classy shall maintain a staff reasonably available to give Franchisee advice and assistance by telephone when requested by Franchisee or deemed appropriate by Classy.

11.4 Branding.

11.4.1 Branding Fund. Classy may establish one, and at Classy's option may establish more, Branding Funds to pool branding monies of Classy and each of Classy's franchisees so as to achieve greater benefits for all in promoting the CLASSY brand and Classy's Marks. Franchisee must pay, as a contribution to the Branding Fund, up to 4% of Franchisee's Gross Sales, payable at the same times and in the same manner as Royalty Fees. If Classy owns and operates a CLASSY retail business, then Classy may, but is not obligated to, make contributions to the Branding Fund on the same basis as Franchisee. Classy will keep the Branding Fund in a segregated account. Any amounts not spent during the fiscal year in which the amounts were collected will remain in the Branding Fund for future use by Classy in accordance with Classy's current Branding Fund policies. If Classy expends amounts in one year that are in excess of the Branding Fund, then Classy may seek reimbursement from the Branding Fund.

A. Use of Funds. The Branding Fund may be used to pay for market research, development, branding, quality assurance, branding materials, promotion or public relations programs, media placement for a national or regional branding program, "pay per click" programs, a referral program, or any combination of them, as Classy, in Classy's sole discretion, may deem necessary or appropriate to advertise or promote Classy and to assure and enhance the name, goodwill, reputation and quality of the System and Classy brand, and Marks. Although branding funds will not be used to primarily solicit franchises, branding may contain a short statement providing contact information for parties interested in franchising. Classy shall direct all such programs and activities, with sole discretion over the methods, types of support (including training, account quality visits and written materials), creative concepts, materials, endorsements and media used, and the timing, placement and allocation. Franchisee agrees that the Branding Fund may be used to meet any and all costs of maintaining, administering, developing, creating, directing and preparing national, regional or local research, development, quality assurance, branding and promotion materials, branding programs, branding programs and activities, including the costs of creating, preparing and conducting test marketing, surveys, direct mail/distribution, couponing, television, radio, magazine, bill board, newspaper and other media programs and activities, training and inspection programs, updated Manual and the costs of hiring others to assist us. Branding Funds may be used for the costs of any collection, mediation, arbitration, or litigation involving the Branding Fund. Classy may initiate Branding Fund projects that are national or regional in scope and may also make allocations of Branding Fund monies to local groups of franchisees or individual franchisees when Classy considers it desirable. Classy may from time to time implement certain optional branding promotions which may use Branding Fund materials as part of the promotion. If Franchisee elects to not participate in the program, Franchisee will not be provided the leads from the program. Because the benefits of branding and promotion are difficult to measure with precision, Classy reserves the unqualified right to determine, in Classy's sole discretion, how Branding Fund monies will be spent; the sole proviso is that the monies must be used in a manner that is described above.

B. Reports. Classy will prepare an annual summary of the percentages spent on production, media placement, administrative expenses, and other categories as appropriate from the Branding Fund in the prior year. This summary will be made available to Franchisee at Classy's corporate office within 10 business days from Classy's receipt of Franchisee's request.

11.4.2 Other Promotions. Classy may take photographs of its events in order to promote the event and the System. Franchisee consents to Classy's usage of any photograph that contains an image of Franchisee that Classy takes at an event or at the Franchised Business location such as training, conferences, seminars, events or at Classy's office, stores or facilities.

12. PROTECTION OF THE SYSTEM.

12.1 System. The Confidential Information and the Marks (each as defined below, and collectively the "**System**") are valuable property rights of and owned by Classy and/or its affiliates.

12.1.1 Definitions. Classy and its affiliates have designed, developed and adopted specific methods relating to the design and installation of Classy Closets products, including without limitation:

A. Confidential Information. Confidential and proprietary information consisting of the Manual, the Software, wholesale prices, specifications, future product planning, marketing history, plans and strategies, customer information, research, mailing lists, vendor information including pricing, manufacturer information, financial and sales data, and sales techniques, all of which may be further developed or modified in the future (collectively the "**Confidential Information**"); and

B. Marks. The trade name and trademark "Classy Closets" and such other proprietary trade names, service marks, logo types, trade symbols, trade styles, emblems, signs, slogans, insignias, trademarks, designs and copyrights as Classy may hereafter acquire, adopt or develop and designate for use in connection with the System, together with all goodwill associated therewith (collectively the "**Marks**").

12.1.2 Modifications. The System may be changed from time to time in whole or in part for the intended purpose of making it more effective, efficient, economical and/or competitive, adapting to new conditions, materials, market preferences and/or technology, enhancing the reputation and public appearance of the System, and/or better servicing customers. Classy may from time to time develop or acquire new or modified products. Classy, in its sole and absolute discretion, may elect to market products other than Classy Closets products separately or through the System on either an optional or mandatory basis. Classy retains the right to make such changes to the System as Classy deems appropriate, including without limitation changes to the Marks, the Confidential Information and the following:

A. Additional Products. Classy shall have the right from time to time to designate additional mandatory Classy Closets styles, models and/or sizes, and/or related products, to be carried by Franchisee. Franchisee shall have a reasonable period of time, not to exceed one month following notice from Classy, to begin offering any such additional designated mandatory Classy Closets or related products.

B. Other Marks. Classy reserves the right to adopt new, additional or modified Marks, in which event, at Classy's directive, Franchisee shall adopt, use and display only those Marks specified by Classy and shall promptly discontinue the use and display of outmoded or superseded Marks.

C. Implementation. All such changes, additions or revisions as provided for in this Section 12.1.2 shall be binding on Franchisee, and Franchisee agrees to adopt and implement all such changes at his own expense as though they were part of the System at the time of the execution of this Agreement; *provided, however*, that Franchisee shall not be required to implement any change (other than as provided for under Paragraphs A and B above) which would materially and adversely affect Franchisee's rights or materially increase his financial obligations under this Agreement unless Franchisee has agreed in writing to implement such a change.

12.1.3 Variances. Classy may from time to time approve exceptions or changes from the uniform standards of the System which Classy, in its sole absolute discretion, believes necessary or desirable under particular circumstances. Franchisee understands that he has no right to object to or automatically obtain such variances, and that any exception or change must be approved in advance by Classy in writing. Franchisee also understands that some Classy Closets franchisees and dealers may operate under different forms of agreements, and consequently the rights and obligations of such franchisees and dealers may differ materially from Franchisee's.

12.2 Manual. To establish and maintain uniform standards of operation, Classy has developed a manual (the "**Manual**"). Franchisee agrees to operate the Franchise Business in strict accordance with the Manual, and to provide Classy with the information and reports as required by the Manual, as the Manual may be adopted, amended, and supplemented from time to time by Franchisor. Classy shall loan Franchisee one copy of the Manual upon his successful completion of initial training. In the event of any dispute regarding the Manual, the terms of the master copy maintained by Classy shall be controlling.

12.3 Standards.

12.3.1 Inspections. Franchisee expressly authorizes Classy to enter the Showroom at any time during normal business hours to inspect the premises to verify compliance with this Agreement. Inspections may include use of a secret shopper program from time to time throughout the term of this Agreement. Classy also has the right from time to time to inspect any manufactured product on Franchisee's premises or any installation (ongoing or completed) at any customer location during normal business hours without providing prior notice to Franchisee. Classy and its representatives reserve the right to select or request that Franchisee provide them, free of charge, with a limited amount of inventory, equipment, branding and other samples for inspection and evaluation purposes to make certain that the items conform with Classy's then-current standards.

12.3.2 Upgrading. In addition to Franchisee's obligations to perform routine maintenance and repairs as provided in Section 3.4, Classy may require, not more than once every three years, that Franchisee upgrade his vehicle(s), signage, equipment, and/or furniture and fixtures for any Showroom that Franchisee may have, to conform to the then current standards and image required of then new Classy Closets Showrooms; *provided, however,* that the total cost of such upgrades shall not exceed $10,000.

12.4 Marks and Confidential Information.

12.4.1 Ownership. Classy shall disclose the Confidential Information to Franchisee by loaning to Franchisee, while this Agreement is in effect, the Manual, the Software, and other materials containing the Confidential Information, and through training and other assistance provided to Franchisee. Franchisee acknowledges that as between Classy and Franchisee, Classy is the sole owner of the Confidential Information; that the Confidential Information is being imparted to Franchisee in trust and confidence and only because of his special status as a Franchisee of the System; and that the Confidential Information is not generally known to the trade or public and is not known to Franchisee except by reason of such disclosure. Franchisee further acknowledges that he shall acquire no interest in the Confidential Information, other than the right to utilize it in the development and operation of the Franchise Business while this Agreement is in effect. In addition, Franchisee acknowledges that the use, duplication, or disclosure of the Confidential Information, except as expressly permitted by this Agreement, shall constitute an unfair method of competition, and that Classy shall suffer irreparable injury thereby.

12.4.2 Usage. Only signs, branding, labels, trade styles and other designations meeting Classy's specifications as set forth in the Manual, with all appropriate trademark and/or copyright notices, shall be used at the Franchise Business. Franchisee shall not remove or modify any copyright, patent, trademark or other proprietary labels, tags, markings, notices or inserts on the Classy Closets products or the packaging or packaging inserts provided by Classy. Franchisee shall not use any names, trademarks, trade names, service marks, logo types, trade styles, designs, signs, symbols, or slogans other than the Marks in connection with the Franchise Business. Franchisee shall not use the Marks in connection with any other activities nor at any location other than as approved by Franchisor in accordance with Section 3.3 of this Agreement. Franchisee agrees that his use of any Marks shall at all times comply with the specifications established from time to time by Classy and shall inure to the benefit of Classy. Franchisee agrees, upon request, to provide Classy with samples of Franchisee's use of any Marks and to comply promptly with all requests to conform such use to Classy's specifications. Franchisee expressly acknowledges that any unauthorized use of the Marks or Confidential Information shall constitute an infringement of Classy's rights and an event of default under Paragraph C of Section 14.2.1. Franchisee agrees not to use or display any names, marks, color combinations, designs, signs, symbols or other designations which are confusingly similar to the Marks in connection with any other business or activity in which Franchisee has an interest. Franchisee shall not engage in any trade practice or other activity which is harmful to the goodwill of, or reflects unfavorably upon, the reputation of Classy or the System, or which constitutes a deceptive or unfair trade practice. Franchisee shall not directly or indirectly contest the validity of the Marks or the Confidential Information or the rights of Classy thereto.

12.4.3 Notice. Franchisee shall conspicuously post at his Showroom a notice in such form and content as Classy may reasonably designate to the effect that the Franchise Business is licensed by Classy and independently owned and operated by Franchisee.

12.4.4 Franchisee's Names. Franchisee shall not use "Classy Closets" or any derivative thereof, or any Marks, or anything similar thereto, in Franchisee's internet (URL) address, or as part of the name of an entity if Franchisee operates the Franchise Business through a corporation or other legal entity. Franchisee shall comply with Classy's instructions for filing and maintaining the requisite local trade name or fictitious business name registrations, and shall execute any documents deemed necessary by Classy to obtain protection for the Marks or to maintain their continued validity. Franchisee shall identify himself as a licensee in conjunction with any use of the Marks, including without limitation use on invoices, order forms, receipts, stationery, business cards, and contracts. Franchisee shall not open any vendor accounts as Classy Closets, and shall not sign Classy's name to any contracts, obligations or other instruments or hold himself out as a partner, agent, or employee of Classy, and Franchisee agrees that all contracts and obligations entered into in establishing and maintaining the Franchise Business shall be in his own name.

12.4.5 Defense of Marks. In the event Franchisee becomes aware of any infringing use of any Mark, or if any third party makes any claim, by suit or otherwise, against Franchisee arising out of Franchisee's use of any Mark, Franchisee shall promptly notify Classy. Thereupon, Classy may take whatever action it deems appropriate; and if any such claim relates solely to Franchisee's use of any Mark in full compliance with this Agreement, Classy shall retain counsel of its own choosing to defend Franchisee against any such claim, suit or demand, and shall protect, indemnify and save Franchisee harmless from any loss, cost or expense arising out of, or relating to, any such claim, suit or demand. Franchisee agrees to execute such documents and to perform such actions as may, in the judgment of Classy, be necessary, appropriate, or advisable in the conduct of such prosecution, defense, or other action.

12.5 Confidentiality. The Confidential Information and all other information and knowledge about the System which is not in the public domain and such other information and material as Classy may designate as confidential shall be deemed Confidential Information for purposes of this Agreement. Franchisee acknowledges that the Confidential Information is disclosed to Franchisee solely on the condition that Franchisee agree, and Franchisee hereby agrees, that Franchisee: (a) Will use the Confidential Information in strict accordance with the instructions and directions given by Classy from time to time; (b) will not use the Confidential Information in any other business or capacity; (c) will maintain the absolute confidentiality of the Confidential Information while this Agreement is in effect, and will disclose the Confidential Information, and permit access to any materials containing the Confidential Information, only to those employees who need to know in order to perform their duties; (d) will maintain the absolute confidentiality of the Confidential Information after the expiration, Assignment or Termination of this Agreement under any circumstances; (e) will not copy any written materials containing the Confidential Information, including without limitation the Manual or the Software, without Classy's prior written consent; (f) will observe and implement all reasonable procedures imposed from time to time by Classy to prevent the unauthorized use and disclosure of the Confidential Information; (g) will keep the Manual, the Software, and all other written materials containing any portion of the Confidential Information in a secure place; and (h) if Franchisee is legally compelled to disclose any Confidential Information, will do so only if Franchisee has used his best efforts to afford Classy the opportunity of obtaining appropriate protective orders or other assurances of confidentiality satisfactory to Classy. These restrictions are imposed for the term of this Agreement, and after this Agreement is terminated (or expires), the entire length of time that any Confidential Information is a trade secret and otherwise, the longest of either four years or as long as may be required by applicable law.

12.6 Noncompetition.

12.6.1 Covenant. Franchisee's activities pursuant to this Agreement will enable Franchisee to learn details about the System and Classy's business operations, to profit from the goodwill associated with the System, and to generate a prospective and actual customer base for the Franchise Business due to such goodwill. Franchisee recognizes that the System is very competitive, is intended to become national and international in scope, and that Classy has a strong legitimate interest in protecting the essential aspects of the System for itself, its other franchisees and dealers, and customers, including without limitation the integrity of the System, Classy's Confidential Information entrusted to Franchisee, continued servicing of customers, and Classy's revenues. Franchisee therefore agrees that, without the express prior consent of Classy, which Classy may withhold in its sole absolute discretion, neither Franchisee, nor any Designated Representative, the Design Manager, the Installation Manager, nor any of Franchisee's officers, directors or owners (collectively "**Key Individuals**"), will, during the Time Period (as defined below), directly or indirectly, engage in, render services or provide financing to, or have any interest in, any Competitive Business (as defined below).

A. Time Period. For the purposes of Section 12.6.1 of this Agreement, the term "**Time Period**" shall mean (a) for the period of time that this Agreement is in effect; and (b) for a period of two years after the Assignment or Termination of this Agreement for any reason, but in no event sooner than two years after all Key Individuals associated with Franchisee have ceased engaging in any Competitive Business. The time period stated above is tolled and suspended for any time period in which Franchisee is violating the terms of this Section.

B. Competitive Business. For the purposes of Section 12.6.1 of this Agreement, the term "**Competitive Business**" shall mean any business that derives ten percent or more of its revenues from the sale of the design and/or installation of any cabinetry or any other custom storage solutions, including but not limited to any cabinetry or storage solutions for homes, offices, and/or other buildings, and that is located or conducts business within the Area.

C. Area. For the purposes of Section 12.6.1 of this Agreement, the term "**Area**" shall mean (a) the Territory, (b) within a radius from the location of the Franchise Business equal to the distance to the furthest customer to whom Franchisee made sales while this Agreement was in effect, and (c) within a fifty mile radius from the location of the Franchise Business.

12.6.2 Modification. The covenant set forth in Section 12.6.1 shall be construed as independent of any other covenant or provision of this Agreement. Classy reserves the right to reduce the scope of the obligations under the covenant unilaterally and without the consent of any other person or entity, effective upon giving notice thereof. In the event that any restriction contained in Section 12.6.1 is found by a court of competent jurisdiction to be unlawful as to scope or duration or otherwise invalid, it is the parties' intention that Section 12.6.1 not be declared ineffective in its totality, but that the provision be declared invalid only to the extent of the illegality, and that the court define acceptable limits to such provision, which shall continue, as so revised, in full force and effect. Following the court's ruling, this Agreement shall automatically be deemed amended to restate the limits of the restriction accordingly.

12.7 Work Product. Franchisee agrees that all documents, papers, notes and other materials and work products containing or derived from the Confidential Information or connected with the operation of the Franchise Business shall be Confidential Information. Franchisee agrees that he will have no proprietary interest in any work product developed or used by it and arising out of the operation of the Franchise Business. Franchisee will, from time to time, as may be requested by Classy, do all things which may be necessary to establish or document Classy's ownership of any such work product, including without limitation the execution of assignments.

12.8 Assignment of Improvements. Franchisee agrees to disclose promptly to Classy any and all inventions, technology, ideas, discoveries, processes, inventions and improvements related to the Franchise Business (collectively, **"Improvements"**), whether or not patentable or copyrightable, conceived or made by Franchisee and its employees and agents, all of which shall automatically be owned by Classy, without compensation to Franchisee. Whenever requested to do so by Classy, Franchisee will execute any and all applications, assignments or other instruments which Classy shall deem necessary to apply for and obtain patents and/or copyrights or to otherwise evidence Classy's ownership and/or protect Classy's interest therein. These obligations shall continue beyond the Termination or Assignment of this Agreement with respect to Improvements conceived or made by Franchisee and its employees and agents while this Agreement was in effect.

12.9 No Solicitation. While this Agreement is in effect, and for a period of two years after any Termination or Assignment, Franchisee shall not employ or solicit for employment any person who is at the time employed by Classy or by any other franchisee in the System, and Franchisee shall not directly or indirectly induce such person to leave such employment.

12.10 Confidentiality and Noncompetition Agreement. Franchisee agrees, at the request of Classy, to execute itself, and to have each of its Key Individuals and their spouses, execute an agreement in form and substance substantially in the form of Exhibit 3 attached hereto (the "**Confidentiality and Noncompetition Agreement**"), containing substantially the same provisions as are set forth in this Article 12, which may be separately and independently enforced by Classy. In addition, Franchisee agrees to have any other employee of the Franchise Business who has access to the Confidential Information execute the Confidentiality and Noncompetition Agreement, but Sections 11 and 12 containing covenants of noncompetition shall not apply to any employees who are not Key Individuals. The Confidentiality and Noncompetition Agreement must be executed before a person has access to any Confidential Information or has begun any training for the Franchise Business.

13. ASSIGNMENT.

13.1 Assignment by Franchisee. This Agreement is entered into by Classy in reliance upon and in consideration of the singular personal skills and qualifications, financial capacity, personal character and representations of, and the trust and confidence reposed in, Franchisee, and where applicable, any Designated Representative and other Key Individuals. Accordingly, except as otherwise provided in this Article 13, Franchisee may not assign, transfer, sell, convey, share, pledge, mortgage or encumber, directly or indirectly, by operation of law or otherwise, in any manner (an "**Assignment**"), his rights or privileges under this Agreement in whole or in part, or all or a material part of the assets of the Franchise Business, or significant ownership of Franchisee as provided in Section 13.3.2, without the prior written consent of Classy. Under no condition may Franchisee sublicense his rights hereunder. Consent to an Assignment upon specified terms and conditions shall not be deemed consent to an Assignment upon any other terms or conditions, nor to any other subsequent Assignment. Such consent shall not be unreasonably withheld; *provided, however,* that Franchisee must be in Good Standing, and it shall not be unreasonable for Classy to impose the following conditions precedent to its consent to any such Assignment:

13.1.1 Compliance with Law. The Assignment shall have been conducted in compliance with all applicable laws, and the proposed assignee shall have secured all governmental permits and licenses required to operate the Franchise Business.

13.1.2 Qualified Assignee. Franchisee shall have demonstrated to Classy's reasonable satisfaction that the proposed assignee, and if applicable, its Designated Representative, and all other Key Individuals, satisfy all the then current qualifications for new franchisees, and possess good moral character and reputation, requisite general business experience, including without limitation management and sales skills, the aptitude and ability to conduct the Franchise Business, an excellent credit history and rating, and adequate financial resources to fulfill all obligations with respect to the Franchise Business and to the selling Franchisee and Classy.

13.1.3 Franchise Agreement. The proposed assignee shall have executed Classy's then current form of Franchise Agreement and any standard ancillary agreements, which may contain materially different terms from those in this Agreement, except that the initial franchise fee shall be waived, the Territory shall not be reduced, the royalties fees shall be calculated as provided below and the remaining Term of this Agreement shall be the Term of the Franchise Agreement executed by the assignee.

13.1.4 Royalty Fees. For the purposes of calculating the Royalty Fees due under Section 4.2 for the proposed franchisee, the new franchise agreement will be considered to have been in existence for the same time period that this Agreement has been in effect. The Royalty Fee for the proposed franchisee will be calculated based on the average monthly Gross Sales of the assigning Franchisee. For example, if this Agreement has been in effect for more than twelve months, the proposed franchisee will pay Classy a nonrefundable monthly royalty fee of either (a) the Standard Royalty fee (based on 5% of the assigning Franchisee's average monthly Gross Sales for the prior twelve-month period) or (b) the Minimum Royalty Fee, whichever is higher, in a fixed monthly payment, payable on the same terms as in Section 4.2 (each month on or before the 10th day of the following month through December of each year). Classy will recalculate the Standard Royalty Fee in January of each year as stated in Section 4.2.

13.1.5 Other Obligations. The proposed assignee shall have expressly assumed in writing all of the obligations of Franchisee, appointed a Designated Representative if applicable, assumed all other agreements pertaining to the Franchise Business (and all third parties to such agreements shall have consented in writing to such assumptions), and shall have complied with Section 13.3.1 if applicable, and delivered the Guaranties as provided for in Section 5.4.

13.1.6 Training. The proposed assignee shall have successfully completed initial training as provided in Section 11.1.

13.1.7 Assignment Fee. Franchisee shall have paid Classy a nonrefundable Assignment fee of $2,500 ("**Assignment Fee**"), payable upon Classy's approval of the Assignment. The amount of the Assignment Fee is subject to adjustment for inflation as provided in Section 5.5.

13.1.8 Right of First Refusal. Franchisee shall have complied with Section 13.5 (Classy's right of first refusal).

13.1.9 Upgrading. Classy may, at its option, require as a condition to approving an Assignment that the proposed assignee agree to perform specified upgrading and/or renovation of the Franchise Business to conform to the current standards and image then required for new Classy Closets franchisees.

13.1.10 Releases and Subordination. Franchisee and Classy shall have executed a mutual general release of all claims related to the grant and performance of this Agreement and the operation of the Franchise Business, subject to Franchisee's continuing obligations as described in Section 14.5, and subject to an exception for any claim as to which either party has previously given the other written notice. Franchisee shall also have subordinated his rights to all payments from the assignee to all obligations of the assignee to Classy.

13.1.11 Price. The purchase prices and terms of the Assignment must not be so burdensome to the prospective transferee as to impair or materially threaten the future operation of the business or the performance of the obligations and requirements in the franchise agreement

13.1.12 Disclosure. Franchisee must request that that Franchisor provide the prospective franchisee with the current form of franchise disclosure document at least fourteen calendar days before the closing.

13.1.13 Indemnification. Franchisee hereby indemnifies Franchisor for any representations made to any transferee.

13.1.14 Financial Information. Franchisor has the right to disclose to any prospective franchisee any revenue reports or other financial information on Franchisee's specific location that Franchisor has or that Franchisee provided to Franchisor, subject to federal and state franchise laws

13.2 Franchisee's Incorporation. Classy expressly consents to an Assignment of this Agreement by an individual Franchisee to a corporation or other legal entity, without payment of any Assignment Fee, provided that Franchisee is in Good Standing and becomes the Designated Representative of the Franchisee entity, and that the conditions of Sections 13.1.1 and 13.3.1 and the following additional conditions have been satisfied:

13.2.1 Assumption by Entity. The entity shall have executed a document satisfactory to Classy agreeing to assume and be bound by all of the provisions of this Agreement; the entity shall have assumed all other agreements pertaining to the Franchise Business, and all third parties to such agreements shall have consented in writing to such assumptions; and the entity shall have submitted to Classy a certified copy of the resolution of its governing body approving execution of this Agreement and the assumption of all obligations relating to the Franchise Business.

13.2.2 Guaranty. The original Franchisee (and their spouse, if applicable) shall remain personally liable in all respects under this Agreement and, if requested by Classy, shall execute both a Guaranty substantially in the form of Exhibit 2 to this Agreement and a subordination of their rights to all payments from the entity to all obligations of the entity to Classy.

13.3 Corporate or Other Legal Entity Franchisee.

13.3.1 Owners. A Franchisee that is a legal entity shall provide Classy with a list of all owners (showing the percentages owned), officers, directors, managing partners and/or managers of the entity and shall keep such information current at all times. All ownership certificates of a Franchisee that is a legal entity shall bear a legend stating that transfer of the certificates is restricted and subject to the terms of this Agreement. Upon Classy's request, each owner and the owner's spouse shall execute an acknowledgment of the restriction on the right to transfer ownership interests in the entity. Key Individuals shall also be required to sign the Confidentiality and Noncompetition Agreement as provided in Section 12.10, and all owners regardless of the percentage of ownership interest in Franchisee must sign a personal Guaranty as provided in Section 5.4.

13.3.2 Change of Ownership. If Franchisee is a legal entity, then while this Agreement is in effect, Franchisee shall notify Classy of any Assignment of ownership interests, including without limitation any Assignment of the legal, beneficial, or voting rights therein. Any such Assignment which together with all prior Assignments constitutes an Assignment of a controlling interest in Franchisee, or an Assignment of more than 50% of the ownership interests in Franchisee, shall constitute an Assignment subject to the conditions of Section 13.1 other than Section 13.1.7.

13.4 Rights of Heirs or Personal Representatives.

13.4.1 Option. In the event of the death or permanent incapacity of an individual Franchisee, or any Designated Representative, or other owner of Franchisee, such person's executor, administrator, personal representative, successor, trustee or heir shall have the option as provided in Section 13.4.2 to succeed to the interest owned herein by such individual in accordance with the provisions of the person's last will or any buy-sell agreement controlling the issue of succession on death.

13.4.2 Conditions. The option shall be exercised by the successor by written notice to Classy within 60 days from the date of death or incapacity and, unless excused by Classy in writing, is further subject to Franchisee being in Good Standing and the satisfaction of the conditions of Sections 13.1.1, 13.1.2, 13.1.4, and 13.1.5. An Assignment made pursuant to this Section 13.4 shall not otherwise be subject to the conditions of Section 13.1.

13.4.3 Failure to Exercise Option or Satisfy Conditions. In the event such successor fails to exercise the option within the time specified, or fails to meet the conditions, then if temporary arrangements for the operation of the Franchise Business are made to the satisfaction of Classy in its sole absolute discretion, the successor shall have a reasonable period of time, not to exceed six months, in which to sell the Franchise Business, subject to all of the conditions set forth in Section 13.1, and thereafter if no approved Assignment has occurred, Classy may, in its discretion, terminate this Agreement.

13.5 Right of First Refusal. If Franchisee desires to make an Assignment of this Agreement, or all or substantially all of the assets of the Franchise Business, or 100% of the ownership interests in Franchisee, then Franchisee must first give Classy written notice setting forth all of the terms and conditions of the proposed Assignment and all available information concerning the proposed assignee, together with copies of any written offer and all related documentation. Within ten business days after receipt of such notice and documentation, Classy may, at its option, elect to make the acquisition for itself or its nominee (which must be no less financially qualified than Classy or the proposed assignee) upon the terms and conditions specified in the offer, subject to a set off for all amounts owed by Franchisee to Classy. Franchisee must simultaneously transfer its rights under the Lease, and any other contracts whose continuation is necessary for operation of the Franchised Business. If Classy declines to exercise its right within the time specified, Franchisee may thereafter make the Assignment to an approved assignee (but not at more favorable terms than those offered to Classy) provided that all of the conditions of Section 13.1 are satisfied. If the Assignment is not made by Franchisee within six months from the date it is offered to Classy, then Franchisee must re-offer to Classy prior to any Assignment. The provisions of this Section 13.5 shall not apply to an Assignment made in compliance with Section 13.2, or Sections 13.4.1 and 13.4.2.

13.6 Transfer by Classy. Classy may transfer and/or delegate any or all of its interests, rights and/or obligations under this Agreement, in whole or in part, directly or indirectly by the transfer of assets, stock, merger, acquisition, pledge or otherwise, without notice to or the consent of Franchisee. In the event of a transfer of all Classy's rights, interests and obligations under this Agreement, Classy shall have no obligations or liability to Franchisee with respect to anything occurring after the transfer.

14. DEFAULT AND TERMINATION.

14.1 Termination by Mutual Consent. This Agreement may be terminated at any time upon the mutual consent of the parties.

14.2 Termination by Classy.

14.2.1 Acts of Default. Upon the occurrence of any of the following material defaults by Franchisee, Classy, at its option, may terminate this Agreement without waiving or diminishing any other remedies Classy may have:

A. If Franchisee fails to make any payment when due under this Agreement or any other agreement between Franchisee and Classy or an affiliate of Classy;

B. If Franchisee fails to commence operation of the Franchise Business on time;

C. If Franchisee misuses the Marks, the Confidential Information or any other part of the System or engages in conduct which reflects materially and unfavorably upon the goodwill associated with them;

D. If Franchisee fails to perform any material obligation under this Agreement;

E. If Franchisee defaults under any other agreement with Classy or any of its affiliates and such default is not cured within the period permitted for cure, if any, under that other agreement;

F. If Franchisee or any Key Individual has made any material misrepresentation or omission in connection with the acquisition of the Franchise Business or to induce Classy to enter into this Agreement;

G. If Franchisee makes no purchases of Classy Closets products from Classy or its approved suppliers during any period of two calendar months, without having obtained Franchisor's prior consent, unless the suspension was caused by an event of Force Majeure;

H. If Franchisee materially breaches this Agreement a third time after twice being notified by Classy to correct any material breach of this Agreement in any twelve month period (regardless of whether the first two breaches were cured);

I. If Franchisee is convicted of a felony or any criminal misconduct which is relevant to the operation or reputation of the Franchise Business; or

J. If Franchisee intentionally, repeatedly, or egregiously underreports Gross Sales Amounts to Franchisor.

If Classy has given Franchisee formal notice of a default or termination, then Classy has the right to suspend Classy's performance of any of Classy's obligations under this Agreement, in addition to Classy's other remedies, during the time in which Franchisee is curing the default or in the event that the default is not cured. Classy's right to suspend Classy's obligations to Franchisee includes but is not limited to, the right to suspend sales of any products, to stop any services to Franchisee and to not provide access to Classy's confidential materials or software.

14.2.2 Notice of Default. Termination will be effective 5 business days after written notice is given to Franchisee if the default described in Paragraph A of Section 14.2.1 has not been cured within that time period. Termination will be effective 30 days after written notice of default is given to Franchisee if any default described in Paragraphs B through D of Section 14.2.1 above has not been cured within that time period, subject to extension as provided in Section 14.3. Termination will be effective immediately upon written notice to Franchisee if any default described in Paragraphs E through I of Section 14.2.1 occurs.

14.3 Extended Cure Period. In the event of a default under a provision of this Agreement which permits time to cure, if the default by its nature cannot reasonably be cured within the specified cure period, the defaulting party shall be entitled to such additional time to cure (not to exceed 60 additional days) as the other party in its sole subjective judgment exercised in good faith deems reasonable, provided that the defaulting party has commenced action to cure the default within the initial cure period and continues diligently thereafter to accomplish the cure. Such an extension shall not be applicable if the default is the failure to pay money due and owing, or if the default is caused, directly or indirectly, by the defaulting party's financial inability, gross negligence or willful misconduct.

14.4 Rights and Obligations upon Expiration or Termination. Upon the early termination or the expiration and non-renewal (any such event referred to herein as a "**Termination**"), or the Assignment, of this Agreement:

14.4.1 Payment. Franchisee shall pay Classy immediately upon the Termination or Assignment of this Agreement, all Royalty Fees, any other amounts owed to Classy and its affiliates and all amounts owed to any Branding Cooperative in accordance with Classy's instructions.

14.4.2 Cease Use of Marks.

A. Rights Terminated. All rights granted hereunder to Franchisee shall immediately terminate. Franchisee shall immediately cease to have the right to use the System. Franchisee shall not identify himself as a present or former franchisee. Franchisee shall immediately stop selling Classy Closets products, and all unshipped orders for Classy Closets products shall be cancelled without liability to either party.

B. No Use of Marks. Franchisee agrees that, immediately after any Assignment or Termination, he will cease and terminate all use of the Marks and the words Classy Closets in any manner whatsoever, or any colorable imitation thereof, including identification on Franchisee's (and Franchisee's employees') vehicles, equipment and clothing, and he will take any steps necessary to disassociate himself from the Marks including the withdrawal of all branding, the destruction of all stationery supplies, and the removal of all signs and any other articles which display the Marks or trade dress associated with the System. Franchisee may not use the Marks or any derivative of the Marks in any Internet web addresses, any uniform resource locators, or any social media accounts. Franchisee agrees that he will not use any reproduction, counterfeit, copy or colorable imitation of the Marks in connection with any other business or the promotion thereof, and agrees not to utilize any trade dress or designation of origin or description or representation which falsely suggests or represents an association or connection with Classy or the System.

C. Telephone Numbers. Franchisee further agrees to change his telephone numbers and listings and instruct the telephone company and all publishers of telephone directories to transfer the telephone number(s) and listing(s) under which Franchisee received calls for the Franchise Business to Classy or a third party designated by Classy.

D. Cancellation of Assumed Name. Franchisee shall take such action as shall be necessary to cancel any assumed name or equivalent registration which contains the words Classy Closets (together or separate) or any other Mark of Classy, and Franchisee shall furnish Classy with evidence satisfactory to Classy of compliance with this obligation within 30 days after the Termination or Assignment of this Agreement.

14.4.3 Return of Confidential Information. Franchisee shall immediately turn over to Classy, the Manual, all copies of the Confidential Information, all Software, and all signs, written materials, clothing and other items bearing any of the Marks, and all copies thereof (all of which are acknowledged to be Classy's property), and shall retain no copy or record of any of the foregoing.

14.4.4 Repurchase of Inventory. For the purposes of this Section 14.4.4, references to Classy shall include all Classy's affiliates that manufacture Classy Closets products purchased by Franchisee. Upon the Termination of this Agreement, Franchisee must sell to Classy, and Classy must repurchase from Franchisee, all of Franchisee's inventory of Classy Closets products and components originally purchased from Classy that are in new and good condition, at the price paid to Classy for such inventory, less shipping and handling. Classy is not obligated to repurchase any machinery or equipment purchased by Franchisee to manufacture products for Classy Closets customers. In addition, at Classy's option, Franchisee must sell and Classy may repurchase from Franchisee, any or all of Franchisee's remaining inventory, regardless of type or condition, at the price paid by Franchisee if the inventory is other than Classy Closets products or components and is in new condition, and at fair market value if the inventory is not in new condition.

A. Setoffs. The purchase price to be paid by Classy for all purchases by Classy under this Section 14.4.4 shall be subject to the following setoffs: (a) shipping and handling charges; (b) all amounts owed by Franchisee to Classy and its affiliates hereunder or under any other agreement; (c) all amounts owed by Franchisee to any affiliate of Classy; and (d) if any of the inventory is subject to a third party lien or security interest, by the balance due on the underlying debt, together with any interest or other charges to be paid in order for Classy to pay off the underlying debt and acquire the inventory free and clear, *provided, however,* that if the amount due with respect to the underlying debt exceeds the repurchase price paid by Franchisor, then Franchisee shall remain solely liable for the difference.

B. Appraised Value. If Franchisor and Franchisee are unable to agree within seven days upon a fair market value for inventory not in new condition that Classy wishes to purchase, fair market value shall be determined by independent appraisal. If Franchisor and Franchisee cannot agree on an independent appraiser, each shall select one, and if the two appraisers so selected are unable to agree upon fair market value within seven days of their appointment, then the two appraisers shall appoint a third. If the third appraiser agrees with either of the two originally appointed appraisers, the value so established shall be the price. If there is no such agreement then, the fair market value shall be the average of: (a) the middle appraisal with a value between the highest and lowest values of the three appraisals, and (b) the appraisal with the value closest to the value of the middle appraisal. Franchisor shall have three business days after receipt of the purchase price established by appraisal to accept the price and proceed with the purchase, or to cancel the purchase. Whether the sale proceeds or is cancelled, each party shall be responsible for the costs of the appraiser it selects. The costs of a single appraiser, or the third appraiser, and all other costs of appraisal, shall be divided equally.

14.5 Continuing Obligations. Following an Assignment or Termination of this Agreement, Franchisee shall remain fully liable for all obligations which by their terms and nature are intended to survive, and for all obligations incurred in the operation of the Franchise Business prior to such Assignment or Termination, including without limitation obligations arising under the following Articles and Sections: 5.3, 5.4, 6.1.1, 10.7, 10.8, 10.9, 10.10, 12.3, 12.5, 12.6, 12.7, 12.8, 14.4, 14.5 and 15.

15. ENFORCEMENT.

15.1 Choice of Law, Venue, and Jurisdiction. This Agreement takes effect upon its acceptance and execution by Classy in Maricopa County, Arizona. Franchisee acknowledges the benefits and desirability of having the entire System governed by one body of law applied uniformly and therefore acknowledges that the provisions of Sections 15.1.1 and 15.1.2 are reasonable.

15.1.1 Applicable Law. Except to the extent governed by the U.S. Trademark Act, 15 U.S.C. §§ 1051 *et. seq.*, and the federal Arbitration Act, 9 U.S.C. §§ 1 *et. seq.*, the existence, validity, construction and sufficiency of performance of this Agreement and all matters relating to it shall be interpreted and construed under and governed by the laws of the State of Arizona applicable to agreements made and to be entirely performed in Arizona, which laws shall prevail without regard to, and without giving effect to, the application of any conflict of law rules; *provided, however*, that if any of the provisions of this Agreement would not be enforceable under the laws of Arizona, then such provisions shall be governed by the laws of the state of Franchisee's Territory; *and provided further* that the Franchise Disclosure Document delivered to Franchisee contains a State Law Addendum, which is hereby incorporated into this Agreement, referencing and summarizing certain existing local laws of other jurisdictions, and the application of Arizona law shall not abrogate or reduce any rights of Franchisee provided for under such existing local laws which by their terms apply and supersede Arizona law (unless local law conflicts with federal law and is preempted).

15.1.2 Venue and Jurisdiction. Franchisee and Classy consent and irrevocably submit to the jurisdiction and venue of any state or federal court of competent jurisdiction located in Maricopa County, Arizona, and waive any objection to the jurisdiction and venue of such courts. The provisions of this Section 15.1.2 are subject to applicable superseding law as provided in Section 15.1.1. This choice of venue and jurisdiction does not preclude the bringing of any action by the parties as provided in Sections 15.3 and 15.5, or the enforcement of any judgment obtained, in any other appropriate jurisdiction, or the right of the parties to confirm or enforce any arbitration award in any appropriate jurisdiction.

15.2 Contractual Statute of Limitations. Any and all claims and causes of action arising out of or relating to this Agreement (including without limitation the offer and grant of this Agreement), the relationship of Franchisee and Classy, or Franchisee's operation of the Franchise Business, by any party hereto against the other, shall be deemed waived, released and barred unless written notice of such claim or cause of action is given, or arbitration or an action is commenced upon such claim or cause of action, within one year from the occurrence of the facts giving rise to such claim or cause of action; *provided, however*, that the foregoing limitation shall not prevent Classy from terminating this Agreement if Classy otherwise has the right to do so.

15.3 Injunctive Relief. Nothing in this Agreement will prevent either Franchisee or Classy from obtaining temporary restraining orders and temporary or preliminary injunctive relief in a court of competent jurisdiction. However, the party obtaining such temporary relief must contemporaneously submit the dispute for arbitration on the merits. Franchisee recognizes that it is a member of a franchise System and that Franchisee's acts and omissions may affect the other businesses operating under the Marks. Franchisee's failure to comply with the terms of this Agreement is likely to cause irreparable damage to Classy and to some or all of the other franchisees of Classy. For this reason, Franchisee agrees that if Classy can demonstrate to a court of competent jurisdiction that there is a substantial likelihood of a breach or threatened breach of any of the terms of this Agreement by Franchisee, Classy will be entitled, without posting a bond, to a temporary restraining order or preliminary injunction enjoining the breach and/or to a decree of specific performance, without having to show or prove any actual damage.

15.4 Mediation. In order to make the resolution of any dispute less expensive, quicker and less subject to public notoriety, and to resolve any dispute in a less formal and antagonistic manner as well as to increase the opportunities of the parties to maintain their mutually beneficial business relationship, the parties agree that in the event of any dispute arising under or related to this Agreement, they will participate in non-binding mediation prior to instituting arbitration; *provided, however*, that Classy shall not be required to mediate any issues relating to the ownership or use of the Marks or the Confidential Information. Either party may initiate a mediation procedure by making a written request for mediation. Such mediation will be conducted by any mediation service mutually agreed to by the parties and according to the mediator's procedures. The mediation process shall begin promptly and shall be concluded within ten business days of the day the request for mediation is made, unless the parties mutually agree otherwise. Any and all discussions, negotiations, findings or other statements by the mediator and/or the parties made in connection with the mediation shall be confidential and shall not be admissible into evidence in any other proceeding. The expenses of the mediation service shall be borne equally by Classy and Franchisee, and all other expenses relating to such mediation shall be borne by the party incurring them.

15.5 Arbitration.

15.5.1 Submission. Any controversy or claim arising out of or relating to this Agreement or any incorporated documents or related agreements that is not resolved by mediation as provided in Section 15.4 shall be submitted to binding arbitration in Maricopa County, Arizona, administered by the American Arbitration Association under its Commercial Arbitration Rules, including its Rules for Emergency Measures of Protection; *provided, however*, that claims regarding the ownership and/or validity of the Confidential Information or the Marks or their registration shall not be subject to arbitration. Notwithstanding the foregoing, either party may, without waiving any remedy under this Agreement, elect to bring any claim for injunctive or other provisional relief to compel compliance hereunder, or to protect the System or Marks, in any court having jurisdiction, and may join with such claim any other claims which arise out of the same acts or omissions.

15.5.2 Parties. The parties to each arbitration case shall be limited to Classy and a single Franchisee and any persons or entities jointly or severally or vicariously liable. Franchisee may not bring any claim in a representative capacity for other franchisees and separate arbitration cases shall not be consolidated.

15.5.3 Arbitrator(s) . Any dispute submitted to arbitration involving a monetary claim or consequences to either party of less than $200,000 shall be heard and determined by one arbitrator, unless the parties agree or the American Arbitration Association directs pursuant to its rules that three arbitrators be appointed. Disputes involving $200,000 or more shall be heard and determined by three arbitrators. Arbitrators shall have no relationship to either party, and to the extent possible, they shall have franchise law experience or be former or retired federal or state court judges.

15.5.4 Discovery. The parties shall be entitled to conduct discovery of the types provided by the Federal Rules of Civil Procedure to the extent deemed reasonably necessary by the arbitrator(s) consistent with the expedited nature of arbitration, and the arbitrator(s) may impose the sanctions of those rules for noncompliance.

15.5.5 Award. The final award of the arbitrator(s) shall be accompanied by a reasoned opinion. Any interim, interlocutory, or partial rulings, orders, and awards may be enforced through any court having jurisdiction, and judgment on the final award rendered by the arbitrator(s) may be confirmed as a judgment in any court having jurisdiction.

15.6 Waivers.

15.6.1 No Implied Waivers. No failure or delay by either party to execute any power reserved to it by this Agreement, or to insist upon strict compliance by the other party with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of the right to demand exact compliance with any of the terms herein. Waiver by one party of any particular default by the other party shall not affect or impair the rights with respect to any subsequent default of the same, similar, or different nature. Acceptance by Classy of any delinquent or partial payments due to it shall not be deemed to be a waiver by Classy of any breach by Franchisee of any terms, covenants, or conditions of this Agreement.

15.6.2 Waiver of Jury Trial. Franchisee and Classy each irrevocably waive trial by jury in any action, proceeding, or counterclaim, whether at law or in equity, brought by either Franchisee or Classy.

15.6.3 Waiver of Class Actions. Any dispute, arbitration, or court action will be heard and resolved on an individual basis only and not a class-wide, multiple plaintiff or similar basis. Any such proceeding will not be consolidated with any other proceeding involving any other person, except for disputes involving affiliates of the parties.

15.6.4 Damage Waivers. Except for Franchisee's obligations to indemnify Classy pursuant to Section 10.10 of this Agreement and claims for unauthorized use of the Marks or Confidential Information, Franchisee and Classy will each be limited to equitable relief and recovery of any actual damages it sustains, and each waives to the fullest extent permitted by law any right to, or claim for, any punitive or exemplary damages against the other.

15.7 Right of Classy To Cure Defaults. In addition to all other remedies herein granted, if Franchisee shall default in any of his obligations or breach any term or condition of this Agreement, Classy may, at its election, immediately or anytime thereafter without waiving any claim for breach hereunder, cure such default(s) for the account, and on behalf, of Franchisee, and the cost to Classy thereof shall be due and payable by Franchisee to Classy on demand. Classy shall not be responsible to Franchisee for any loss or damage resulting in any manner by reason of Classy undertaking in good faith any acts to cure any default(s) by Franchisee.

15.8 Attorneys' Fees and Costs. The prevailing party in any arbitration or litigation to enforce the terms of this Agreement or defend any action or proceeding relating hereto shall be entitled to receive all costs, expenses and reasonable attorneys' fees incurred or paid.

15.9 Remedies Cumulative. No right or remedy conferred upon or reserved to Classy or Franchisee by this Agreement is intended to be, or shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

15.10 Severability. In the event any term or provision of this Agreement is declared to be invalid or unenforceable for any reason, the provision shall be modified to the extent necessary to make it enforceable, or if it cannot be so modified, then severed, and the remaining terms of this Agreement shall remain in full force and effect, and it is hereby declared the intention of the parties that they would have executed the Agreement as so modified.

16. **MISCELLANEOUS.**

16.1 Relationship of Parties. Franchisee is an independent contractor. Neither party is the legal representative or agent of, or has the power to obligate (or has the right to direct or supervise the daily affairs of) the other for any purpose whatsoever, and no partnership, joint venture, agency, employment or fiduciary relationship is intended or created by reason of this Agreement except for Classy's disclosure of the Confidential Information to Franchisee in trust.

16.2 Notices.

16.2.1 Addresses. All communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when delivered personally, or one business day after being sent prepaid by overnight commercial courier service for next business day delivery, or five business days after being deposited in the United States mail, for certified or registered delivery, return receipt requested, postage prepaid. Any notice to Classy shall be addressed to:

CHRLS, Enterprises, Inc.
1251 S. Nelson Drive
Chandler, Arizona 85226
Att'n: President
Telephone: 480-967-2200
FAX: (602) 438-2304

Any notice to Franchisee may be addressed to it at either the address of Franchisee's Showroom, if applicable, or the home address of Franchisee or Franchisee's Designated Representative, as stated in Paragraph 16.2.1 of Exhibit 1. Notice may also be given by an email containing a PDF of a document to Franchisee’s last known email address or to Classy’s president. Notice by email will be deemed delivered the day after it is sent by email provided that it is sent during regular business hours and an undeliverable email address notice is not received within 12 hours. If an undeliverable email address notice is received, then notice will be provided by another means stated in this Section. Either party may designate another address at any time by appropriate written notice to the other. Franchisee shall promptly notify Classy of all changes to the addresses referenced in Section 16.2.1 relating to Franchisee. All payments and regular reports required to be made by Franchisee shall be delivered to Classy at the above address, but need not be sent by certified or registered mail.

16.2.2 Disclosure. Classy is hereby authorized to disclose and publish the addresses and telephone numbers provided pursuant to Section 16.2.1 and any changes thereto, to the extent required by law.

16.3 Time. Time is of the essence of this Agreement with respect to each and every provision in which time is a factor. Wherever this Agreement refers to a period of days, the first day to be counted shall be the first day following the designated action or event; and for any period of five or fewer days, only business days (excluding Saturdays, Sundays and national holidays) shall be counted. Unless expressly stated otherwise, periods longer than five days shall be measured by calendar days, except that if the last day of such a period is not a business day, the period shall automatically be extended to the next business day.

16.4 Interpretation.

16.4.1 Entire Agreement. This Agreement, including its Exhibits and the documents expressly referred to herein, sets forth the entire agreement between the parties, and completely supersedes all prior negotiations, and all oral and written agreements and understandings between them, pertaining to the subject matter hereof.

16.4.2 Amendments. Except as otherwise expressly provided herein, this Agreement may be amended only by a written document signed by the party sought to be charged with such amendment. This limitation on modification is not subject to oral rescission, modification, or waiver.

16.4.3 Classy Approval. In all cases where Classy's prior approval is required and no other method or time for obtaining such approval is prescribed, Franchisee shall request such approval in writing, and Classy shall notify Franchisee in writing of its decision within ten business days after receiving Franchisee's written request and all supporting documentation. Except as otherwise expressly provided in this Agreement, whenever the consent or approval of Classy is required hereunder, such consent or approval must be in writing and may be withheld only in the reasonable discretion of Classy. Classy's consent to or approval of any act or request by Franchisee shall be effective only to the extent stated; shall not be deemed to waive or render unnecessary consent or approval of any subsequent similar act or request; and shall not constitute a recommendation, guaranty or warranty with respect to the suitability or success of the matter consented to or approved.

16.4.4 Construction. The table of contents and captions used in this Agreement are inserted for convenience only and shall not affect the meaning or construction of this Agreement. Capitalized terms shall have the meanings defined where such terms occur in this Agreement in bold type and quotation marks. Each of the Exhibits to this Agreement is hereby incorporated into this Agreement by this reference. The language of this Agreement shall be construed simply according to its fair meaning and not strictly for or against either party. If Franchisee shall be two or more persons and/or entities (notwithstanding any agreement, arrangement or understanding between or among such persons or entities), the rights, privileges and benefits granted herein may only be exercised and enjoyed jointly; the liabilities and responsibilities hereunder assumed, however, shall be the joint and several obligations of such persons or entities. Words in this Agreement shall be deemed to refer to whatever number or gender the context requires. It is the intention of the parties hereto that if any provision in this Agreement is capable of two constructions, one of which would render the provision void and the other of which would render the provision valid, then the provision shall have the meaning which renders it valid. Each term and provision of this Agreement to be performed by Franchisee shall be construed to be both a covenant and a condition.

16.5 Successors. Subject to the restrictions on Assignment in Article 13, this Agreement shall be binding upon and inure to the benefit of the permitted successors, assigns, heirs, and personal representatives of the parties.

16.6 Submission of Agreement. The delivery of this Agreement does not constitute an offer to Franchisee, and this Agreement shall become binding and effective only upon execution by both Franchisee and an authorized officer of Classy.

16.7 Acknowledgments.

16.7.1 Risks. Franchisee acknowledges that he has conducted an independent investigation of the business contemplated by this Agreement and recognizes that it is speculative and involves business risks, and that making a success of the business will be largely dependent upon his own skills, business abilities, and efforts. Classy expressly disclaims the making of, and Franchisee acknowledges that he has not received nor relied upon, any representation, warranty, or guaranty, expressed or implied, as to the potential volume, profits, or success of the business contemplated by this Agreement.

16.7.2 **No Other Representations.** Franchisee hereby expressly warrants that he has no knowledge of any representation about the Franchise Business, by Classy or its officers, directors, shareholders, employees or agents, that is contrary to the terms of this Agreement or the documents referred to herein.

FRANCHISEE UNDERSTANDS AND ACKNOWLEDGES THAT: (A) CLASSY HAS MADE NO REPRESENTATION THAT FRANCHISEE WILL EARN OR IS LIKELY TO EARN A PROFIT IN EXCESS OF THE INITIAL CONSIDERATION PAID BY FRANCHISEE; AND (B) CLASSY WILL NOT PROVIDE A LOCATION, OR ASSIST FRANCHISEE IN FINDING A LOCATION FOR HIS FRANCHISE BUSINESS.

16.7.3 **Advisors.** Franchisee acknowledges that he has received, read and understands this Agreement, the attachments hereto and all disclosure documents delivered in connection herewith; that Franchisee has had ample time and opportunity to review such documents with his own legal counsel and other advisors of his own choosing and to consult with them about the potential benefits and risks of entering into this Agreement; and that Classy has fully and adequately explained the provisions of such documents to the satisfaction of Franchisee.

16.7.4 **Officers.** Franchisee represents that it has not signed this Agreement in reliance on any shareholder, director, officer, or employee remaining with Company in that capacity and such people are only representatives of Classy.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the Effective Date stated above.

"Franchisee":
____

By: _______________________________
(Signature)

____
(Type or Print Name)

Its: _______________________________
(Title)

"Classy" or "Franchisor":
CHRLS, Enterprises, Inc.

By: _______________________________
(Signature)

____
(Type or Print Name)

Its: _______________________________
(Title)

EXHIBIT 1
TO
FRANCHISE AGREEMENT

TERMS

First Paragraph. Franchisee is:

____
(Full legal name)

[check one and insert state of formation]
☐ a ____________________ sole proprietorship
☐ a ____________________ corporation
☐ a ____________________ partnership
☐ a ____________________ limited liability company

____
(Street Address)

____
(City, State, Zip Code)

Telephone Number: (_____) _____________________
Facsimile Number: (_____) _____________________

2.1 Territory. Franchisee's Territory shall be:

____

____

____

____

____.

2.2 Population. The estimated Population in Franchisee's Territory is

_____________________.

Classy Initials:______

Franchisee Initials:______

2.3.3 Minimum Monthly Sales. Franchisee's Minimum Monthly Sales are as follows, subject to adjustment for inflation as provided in Section 5.5 of the Agreement.

Population	Number of Years	Month/Year to Month/Year	Cents	Minimum Monthly Sales
	1-2		None	None
	3		3¢	
	4		4¢	
	5 -10		5¢	

4.1 Initial Franchise Fee. Franchisee shall pay Franchisor an initial Franchise Fee of $__________ upon the execution of this Agreement.

4.2 Royalty Fee(s). Franchisee shall pay Classy a flat nonrefundable monthly royalty fee of $___________ (the Minimum Royalty Fee), prorated for the first partial month (if any) and for the first twelve full months that this Agreement is in effect. Franchisee shall also pay the Minimum Royalty Fee if Franchisee's Standard Royalty Fee is less than the Minimum Royalty Fee. The amount of the Minimum Royalty Fee is subject to adjustment for inflation as provided in Section 5.5 of the Agreement.

Classy Initials:______

Franchisee Initials:______

16.2.1 Home Address. Franchisee's home address and telephone number, or the name, home address and telephone number of Franchisee's Designated Representative if Franchisee is a corporation or other form of legal entity, are:

____
(Name of Designated Representative for Business Entity Franchisee)

____
(Residential Street Address)

____
(City, State, Zip Code)

Residential Telephone Number: (_____) ______________________

Residential Facsimile Number: (_____) ______________________

Classy Initials:______

Franchisee Initials:______

EXHIBIT 2
TO
FRANCHISE AGREEMENT

<u>G U A R A N T Y</u>

As an inducement to CHRLS, Enterprises, Inc. ("**Franchisor**") to execute the Franchise Agreement (the "**Agreement**") between ______________________________ ("**Franchisee**") and Franchisor, dated ________________________, 20__, the undersigned, together with all persons and entities who may become guarantors (collectively the "**Guarantors**"), jointly and severally, unconditionally guarantee that Franchisee will fully, promptly and faithfully perform and discharge all of its obligations, covenants, duties and conditions under the Agreement, and under any and all instruments, documents or other evidence of indebtedness, amending and/or issued in connection with or pursuant to the Agreement and all related obligations (collectively the "**Obligations**"). The Guarantors and each of them hereby promise to pay on demand any and all indebtedness of Franchisee and perform each Obligation required of Franchisee.

The Guarantors jointly and severally hereby indemnify and hold Franchisor harmless from and against any and all damage it may suffer as a result of: (1) any breach of any representations or warranties made by Franchisee pursuant to the Obligations, and (2) any failure to perform or any event of default by Franchisee with respect to any of its obligations, covenants, duties and conditions pursuant to the Obligations.

The obligations of Guarantors hereunder are independent of the obligations of Franchisee under the Obligations. A separate action or actions may be brought and prosecuted directly against any one or more of the Guarantors, whether or not an action is brought first or at all against Franchisee or any other Guarantor, and whether or not Franchisee or any other Guarantor is joined in any such action or actions, and with or without any exercise of any other remedy Franchisor may have pursuant to the Obligations.

Guarantors each authorize Franchisor, without notice or demand and without affecting any Guarantor's liability hereunder, from time to time to: (1) renew, compromise, settle, adjust, extend, accelerate or otherwise change the time for payment of or otherwise alter the terms of the Agreement, the obligations or the indebtedness of Franchisee pursuant to the Obligations; (2) take and hold security for the performance of this Guaranty or the Obligations guaranteed, and exchange, enforce, waive and release any security held; (3) apply any security and direct the order or manner of sale thereof as Franchisor in its discretion may determine; (4) release or substitute one or more of the Guarantors; and (5) assign this Guaranty in whole or in part.

Guarantors each waive any right to require Franchisor to: proceed against Franchisee or any other Guarantors; proceed against, protect, preserve or exhaust any security from Franchisee; or pursue any other remedy in the power of Franchisor. Guarantors each waive any and all rights accorded to them under the suretyship provisions of applicable state law, and waive all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor and notices of acceptance of this Guaranty and of the existence, creation, modification of terms, or incurring of new or additional indebtedness of Franchisee to Franchisor.

Guarantors each agree to pay all reasonable attorneys' fees and other costs and expenses which may be incurred by Franchisor in connection with the enforcement of the Obligations or this Guaranty.

Guarantor waives any and all rights or defenses based on suretyship or impairment of collateral including, but not limited to, any rights or defenses arising by reason of (i) any “one action” or “anti-deficiency” law or any other law, including without limitation A.R.S. Sections 12-1566, 33-729 and 33-814, which may prevent Franchisor from bringing any action, including a claim for deficiency, against Guarantor, before or after Franchisor’s commencement or completion of any foreclosure action, either judicially or by exercise of a power of sale or (ii) any defenses given to guarantors at law or in equity other than actual payment and performance of the indebtedness. A discharge in bankruptcy of the Franchisee by a Bankruptcy Court that is “full satisfaction” (or words to such effect) of the Franchise Agreement’s obligations, regardless as to whether the discharge was part of the resolution of a bankruptcy claim or as part of a plan of reorganization, does not excuse the obligations of any Guarantor and Franchisor may pursue the Guarantors for the entire amount due and owing Franchisor regardless of the discharge.

The provisions of the Agreement providing that Arizona law shall govern, and requiring arbitration and litigation in Maricopa County, Arizona, shall also apply to this Guaranty and each Guarantor.

DATED: ___________________, 20__

GUARANTOR:

____
(Signature)

____
(Print Name)

____
(Residential Street Address)

____
(City, State, Zip Code)

____
(Residential Telephone Number)

GUARANTOR'S SPOUSE:

The undersigned spouse of Guarantor hereby consents to, and agrees to be bound by, the foregoing Guaranty.

____
(Spouse's Signature)

____
(Print Name)

EXHIBIT 3
TO
FRANCHISE AGREEMENT

CONFIDENTIALITY AGREEMENT
and
[FOR KEY INDIVIDUALS] NONCOMPETITION AGREEMENT

THIS CONFIDENTIALITY AGREEMENT and NONCOMPETITION AGREEMENT (this "**Agreement**") is entered into as of the _____ day of ______________, 20__, by the undersigned individual (the "**Undersigned**") for the benefit of CHRLS, Enterprises, Inc. (the "**Franchisor**"), and if applicable, ____, a franchisee (the "**Franchisee**") under that certain franchise agreement dated as of the ______ day of _______________, 20__ (the "**Franchise Agreement**"), whereby the Franchisor granted a license to the Franchisee to use the Classy Closets® trademark (the "**Mark**") and methods in connection with the operation of a retail Classy Closets franchised business (collectively, the "**System**").

R E C I T A L S:

A. The Undersigned is a prospective purchaser of a Classy Closets franchise; or alternatively, the Undersigned holds, or has been offered, a position as an owner, officer, director or designated representative of a Franchisee that is a corporation or other form of business entity, or as a design or installation manager for Franchisee (each such person is referred to in this Agreement as a "**Key Individual**"); or alternatively, the Undersigned holds, or has been offered a position as an employee of Franchisee other than as a Key Individual; in each case as specified below with the Undersigned's signature (the "**Position**").

B. The Position will place the Undersigned in a position of trust and confidence with both Franchisor and Franchisee. The Undersigned acknowledges that the Position may require disclosure to him or her from time to time of confidential information, including without limitation: manuals, software, wholesale prices, specifications, future product planning, marketing history, plans and strategies, customer information, research, mailing lists, vendor information, manufacturer information, financial and sales data, and sales techniques, all of which may be further developed or modified in the future (hereinafter collectively the "**Confidential Information**").

C. The Undersigned consequently agrees that it is reasonable and necessary for the protection of the System and for the benefit of both Franchisor, and, if applicable, the Franchisee to keep the Confidential Information confidential and to not compete with any Classy Closets franchised business, all pursuant to the terms and conditions contained in this Agreement.

NOW THEREFORE, in consideration of the mutual promises and conditions contained herein, and as an inducement to Franchisor to divulge Confidential Information to the Undersigned as a prospective franchisee, or to enter into a Franchise Agreement with the Franchisee, and/or in consideration of the Undersigned's relationship with the Franchisee, the Undersigned agrees as follows:

1. **Ownership of the Mark and Confidential Information**. The Undersigned expressly acknowledges that as between Franchisor and the Undersigned, Franchisor is the sole owner of the Mark and Confidential Information, including without limitation the manuals and all information contained therein, and that the Confidential Information is being imparted to the Undersigned in trust and confidence and only by reason of Undersigned's Position; and that the Confidential Information is not generally known to the trade or public and is not known to the Undersigned except by reason of such disclosure. The Undersigned further acknowledges that the Undersigned shall acquire no interest in the Confidential Information, other than the right to utilize it in connection with the performance of duties associated with the Position. In addition, the Undersigned acknowledges that the use of the Mark or the duplication or disclosure of the Confidential Information except as expressly permitted by this Agreement shall constitute an unfair method of competition and that Franchisor and, if applicable, Franchisee, shall suffer irreparable injury thereby.

2. **Confidentiality**. All of the Confidential Information and knowledge about the System which is not in the public domain, and such other information and material as Franchisor or Franchisee may designate as confidential, shall be deemed Confidential Information for purposes of this Agreement. The Undersigned agrees to keep all Confidential Information confidential and to use the Confidential Information only for the purposes and in the manner authorized by Franchisee and Franchisor. The Undersigned agrees that s/he will not, at any time, while holding the Position or thereafter, in any manner or form, directly or indirectly, duplicate, use or disclose any Confidential Information to any person or entity other than the individuals in the System, who need to have such Confidential Information in order to perform their jobs. These restrictions are imposed for the term of this Agreement, and after the Franchise Agreement is terminated (or expires), the entire length of time that any Confidential Information is a trade secret and otherwise, the longest of either four years or as long as may be required by applicable law.

3. **Work Product.** The Undersigned agrees that all documents, papers, notes and other materials and work products containing or derived from the Confidential Information or connected with the Undersigned's Position with Franchisee shall be Confidential Information. The Undersigned agrees that they will have no proprietary interest in any work product developed or used by him or her in connection with the Position. The Undersigned will, from time to time, as may be requested by Franchisee or Franchisor, do all things which may be necessary to establish or document Franchisee's or Franchisor's ownership of any such work product, including without limitation the execution of assignments.

4. **Assignment of Improvements**. The Undersigned agrees to disclose promptly to Franchisor any and all inventions, technology, ideas, discoveries, processes, inventions and improvements related to Classy Closets (collectively, **"Improvements"**), whether or not patentable or copyrightable, conceived or made by the Undersigned while the Franchise Agreement is in effect, all of which shall automatically be owned by Franchisor without compensation to the Undersigned. Whenever requested to do so by Franchisor, the Undersigned will execute any and all applications, assignments or other instruments which Franchisor shall deem necessary to apply for and obtain patents and/or copyrights or to otherwise evidence Franchisor's ownership and/or protect Franchisor's interest therein. These obligations shall continue beyond the termination of the Undersigned's Position with Franchisee with respect to Improvements conceived or made by the Undersigned while the Undersigned held a Position with Franchisee.

5. **Return of Confidential Material**. Upon termination of his or her Position with Franchisee, the Undersigned shall promptly return to Franchisee all copies of any Confidential Information and all property belonging to Franchisee and Franchisor, or either of them, in the Undersigned's possession, custody or control, including any of such items produced or prepared by the Undersigned.

6. **Non-Solicitation of Employees.** While this Agreement is in effect and for a period of two years after the termination of the Undersigned's Position with Franchisee, the Undersigned shall not employ or solicit for employment any person who is at the time employed by Franchisor or by any other franchisee or dealer in the System, and the Undersigned shall not directly or indirectly induce such person to leave such employment.

7. **Injunctive Relief**. In the event of an actual or threatened breach by the Undersigned of any of the provisions of this Agreement, Franchisee and Franchisor, or either of them, shall immediately be entitled to injunctive relief restraining the Undersigned from the breach or threatened breach without having to show any actual damage. It is specifically agreed that Franchisee and Franchisor, or either of them, may incur incalculable and irreparable damage from any such violation, and that Franchisee and Franchisor, or either of them, have no adequate remedy at law and are entitled to injunctive relief for any such actual or threatened violation. Nothing herein shall be construed as prohibiting Franchisee and Franchisor, or either of them, from pursuing any other available remedies for such breach.

8. **Survival**. The provisions of this Agreement shall survive the expiration or termination of any agreement or relationship between Franchisee and Undersigned for any reason, and shall be enforceable notwithstanding the existence of any claim or cause of action of Undersigned against Franchisee and Franchisor, or either of them, predicated on any contract or other basis whatsoever.

9. **Severability**. In the event any term or provision of this Agreement is declared by a court of competent jurisdiction to be invalid or unenforceable for any reason, the provision shall be modified to the extent necessary to make it enforceable, or if it cannot be so modified, then severed, and the remaining terms of this Agreement shall remain in full force and effect, and it is hereby declared the intention of the parties that they would have executed the Agreement as so modified.

10. **General**. Except as otherwise expressly provided herein, this Agreement contains the entire understanding between the parties with respect to the subjects hereof, and supersedes all prior oral and written negotiations and agreements. Except as provided in Section 9 above and Section 12 below, this Agreement may be amended only by an instrument in writing approved by Franchisor and signed by Franchisee and the Undersigned. The waiver of any breach or violation of this Agreement shall not be deemed to amend this Agreement and shall not constitute a waiver of any other or subsequent breach. Headings are for convenience and shall not limit or control interpretation. Words in this Agreement shall be deemed to refer to whatever number and gender the context requires. If the Undersigned is an officer, director or owner of Franchisee, this Agreement shall be governed by the laws of Arizona; in all other cases this Agreement shall be governed by the laws of the state in which Franchisee's Classy Closets business is located. Any proceeding relating to this Agreement shall be brought in Maricopa County, Arizona. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns. Franchisor shall be a third party beneficiary of this Agreement, and shall have the right, but not the obligation, to enforce this Agreement.

COVENANT OF NONCOMPETITION
FOR KEY INDIVIDUALS ONLY

11. Covenant of Noncompetition. This provision shall only apply if the Undersigned is also a Key Individual. Each Key Individual agrees that, without the express prior written consent of Franchisor, which Franchisor may withhold in its sole absolute discretion, the Key Individual will not, during the Time Period (as defined below), directly or indirectly, engage in, render services or provide financing to, or have any interest in, any Competitive Business (as defined below).

A. Time Period. For the purposes of Section 11 of this Agreement, the term "**Time Period**" shall mean:

(1) For a Key Individual who no longer holds any Position with Franchisee, a period of two years after the Key Individual no longer holds any position with Franchisee, but in no event sooner than two years after the Key Individual has ceased engaging in any Competitive Business;

(2) For Key Individuals who continue to hold any Position with Franchisee: (a) the period of time that the Franchise Agreement is in effect; and (b) for at least a period of two years after the Assignment or Termination of the Franchise Agreement for any reason, but in no event sooner than two years after all Key Individuals have ceased engaging in any Competitive Business.

B. Competitive Business. For the purposes of Section 11 of this Agreement, the term "**Competitive Business**" shall mean any business that derives ten percent or more of its revenues from the sale of the design and/or installation of any cabinetry or other custom storage solutions, including but not limited to any cabinetry or storage solutions for homes, offices, and/or buildings, and that is located or conducts business within the Area (as defined below).

C. Area. For the purposes of Section 11 of this Agreement, the term "**Area**" shall mean (a) the Territory (as defined in the Franchise Agreement), and (b) within a radius from the location of Franchisee's Classy Closets business to the distance of the further customer to whom Franchisee made sales while the Undersigned held a position with Franchisee, and (c) within a fifty mile radius from the location of Franchisee's Classy Closets business.

12. Modification. The covenant set forth in Section 11 shall be construed as independent of any other covenant or provision of any agreement. Franchisor reserves the right to reduce the scope of the obligations under the covenant of noncompetition unilaterally and without the consent of any other person or entity, effective upon giving notice thereof.

INDIVIDUAL (the "Undersigned"):

____
(Full Legal Name Printed or Typed)

____
(Signature)

____
(Residential Street Address)

____
(City, State, Zip Code)

Individual's Position(s) with Franchisee for which Sections 11 and 12 above do **NOT** apply [check all Positions that are applicable]:

- ☐ No ownership interest in Franchisee
- ☐ Less than 10% owner of Franchisee
- ☐ Other: ______________________ [specify]

Individual's Position(s) as a Key Individual with Franchisee for which **SECTIONS 11 AND 12 ABOVE DO APPLY** [check all Positions that are applicable]:

- ☐ 10% or more owner of Franchisee
- ☐ Officer: ___________________ [provide title]
- ☐ Director
- ☐ Designated Representative
- ☐ Design Manager
- ☐ Installation Manager

CONSENT AND AGREEMENT OF SPOUSE

The undersigned spouse of the individual signing above hereby consents to, and agrees to be bound by, the forgoing Agreement.

____
(Signature of Spouse)

____
(Printed or Typed Name of Spouse)

ACCEPTED BY FRANCHISEE
(For itself and on behalf of Franchisor):

____
(Full Legal Name of Franchisee)

By:______________________________________
(Signature)

____
(Name Printed or Typed)

Its:______________________________________
(Title)

EXHIBIT D

MULTI-STORE AMENDMENT

This MULTI-STORE AMENDMENT (the "**Amendment**") is made by CHRLS Enterprises, Inc., an Arizona corporation ("**Classy**," "**us**" or "**our**"), and ______________________________ ("**Franchise,**" "**you**" or "**your"**), as an amendment to the franchise agreement (the "**Franchise Agreement**") dated as of _________________, 20___ between you and us. "**Classy**," "**us**," "**we**" or "**our**" also includes our Affiliates. This Amendment is to be effective as of the Effective Date of the Franchise Agreement.

RECITALS:

A. You wish to have the right and obligation to conduct a Classy Closets Franchise Business and install Classy Closets products within one or more geographical areas described in this Amendment, under a separate franchise agreement for each Classy Closets Franchise Business for a particular territory within a geographical area.

B. We wish to grant you the right to develop and operate more than one Franchise Business under the terms and conditions stated in this Amendment.

C. All capitalized terms used in this Amendment have the meanings defined in your Franchise Agreement unless they are specifically defined differently in this Amendment.

D. This Amendment is hereby incorporated by reference into your Franchise Agreement.

AGREEMENT:

1. <u>DEVELOPMENT AREA</u>.

1.1. <u>Definition</u>. You must operate the Franchise Businesses required in Section 2.1 of this Amendment within the following geographical areas (the "**Development Areas**" or "**Development Area**"):

____

____

____.

1.2. <u>Your Protected Rights in the Development Areas</u>. For so long as you are in compliance with the Development Schedule in Section 2.1 of this Amendment and are not otherwise in material default of this Amendment or your Franchise Agreement and subject to our reserved rights in Section 1.3 below, then until six months following the commencement of operation of the last Franchise Business you are obligated to open under Section 2.1 of this Amendment, we agree that we will not install Classy Closets products in homes or offices located in the Development Areas, and we will use reasonable efforts to prevent other franchisees from installing Classy Closets products in homes or offices located in the Development Areas.

1.3. **Our Reserved Rights.**

1.3.1. **Outside the Development Areas.** We may operate or license Classy Closets businesses anywhere outside the Development Areas.

1.3.2. **National Accounts.** We may, within or outside the Development Areas, provide Classy Closets products or installation services: (a) through businesses that have locations both within and outside of the Development Areas; and (b) to builders of homes or offices; *provided, however*, that we will give you a first right of refusal to any such business within the Development Areas if we have the right to do so under the terms of our contract for such business and we believe, in our sole discretion, that you are effectively and efficiently able to provide Classy Closets products or installation services to that business. You shall have 5 days to exercise any such right of first refusal.

1.3.3. **Other Channels of Distribution.** We may, within or outside of the Development Areas, sell Classy Closets products through other channels of distribution such as catalogs and internet sales.

1.4. **Reversion of Development Areas to Classy Closets.**

1.4.1. The Development Areas will revert back to us as provided in Section 4.3.1 below if you fail to meet the Development Schedule in Section 2.1 below.

1.4.2. At the end of the six-month period following the commencement of operation of the last Franchise Business you are obligated to open under Section 2.1 below, the Development Areas will automatically revert back to us.

1.4.3. When the Development Areas reverts back to us, we may locate Franchised Businesses in the Development Areas or permit others to install Classy Closets products in the Development Areas. However, the territory in the Development Areas for other Franchised Businesses will not be within the Territory for each of your Franchised Businesses opened and operating pursuant to this Amendment. We will take the actions required under the franchise agreement for your Franchised Business to prevent other franchisees from installing Classy Closets products in the homes and offices located in the Territory for your Franchised Business.

2. **Development Obligations.**

2.1. **Schedule.** You agree to conduct the following number of Franchise Businesses and install Classy Closets products within the geographical areas (including the first Franchised Business to be opened pursuant to your Franchise Agreement) in strict accordance with the following development schedule ("**Development Schedule**") and the requirements of this Amendment and the separate franchise agreements for each Franchised Business:

Number of Months Elapsed from Date of This Amendment	Cumulative Number of Franchised Business for Which Franchise Agreements Must Be Signed	Geographical Area for the Franchised Businesses To Be Opened	Population Range for Each Territory in the Geographical Area	Cumulative Number of Franchised Businesses That Must Be Open

2.2. **Territory**. You will request a specific territory within the Development Area in which you will conduct the Franchised Business and install Classy Closets products. That territory must have at least the population specified in the population range stated in Section 2.1 above.

2.3. **Franchise Agreements**.

2.3.1. Each Franchise Business will be developed and operated under a separate franchise agreement.

2.3.2. Upon our designating the Territory for each Franchised Business, we will forward two copies of our then-current form of franchise agreement to you. You must execute and return both copies to us, together with the balance of the Initial Franchise Fee for that Franchised Business as provided in Section 3.3 below. The franchise agreement may contain materially different terms from the form of Franchise Agreement for your first Franchised Business, except that:

(a) The Initial Fee will be in the amount and payable as provided in this Amendment;

(b) The Territory for each Franchised Business will be stated in the Franchise Agreement for that Franchised Business; and

(c) We will provide initial training for the Design Manager and the Installation Manager for each Franchised Business, but the Design Manager and Installation Manager may request to be excused from the initial training program. We will not unreasonably withhold our consent.

2.3.3. You have no right to conduct a Franchised Business or install Classy Closets products in a Development Area until you have our prior consent (which we may withhold if the location is in another franchisee or dealer's territory or development area or for other reasonable business reasons) or we have executed the franchise agreement for that Territory and returned one copy to you.

2.3.4. If you do not return two executed copies of the franchise agreement and pay the Initial Fee to us within 15 business days after receiving the agreements, our designation of a Territory will be void and you will have no right whatsoever to operate a Franchised Business or install Classy Closets products in that Territory.

3. **Fees.**

3.1. Development Fee. Upon the execution of this Amendment, you must pay us a development fee (the "**Development Fee**") of $_______________. This amount is calculated as 50% of the total Initial Fee as provided in Section 3.2 below for each of the Franchised Businesses to be opened pursuant to this Amendment, excluding the first Franchised Business.

3.2. Initial Franchise Fee. The Initial Franchise Fee for each location will depend on the estimated population the territory of each Franchised Business. The amount of the Initial Franchise Fee for each Franchised Business (other than the first Franchised Business) that you have paid as part of the Development Fee will be credited against the Initial Franchise Fee payable for each Franchised Business, as provided in Section 2.3.2 above.

Franchised Business Number	Total Initial Franchise Fee	Development Fee (Payable upon Signing Multi-Store Amendment)	Balance of Initial Franchise Fee (Payable upon Signing Franchise Agreement for each Franchised Business)
1	$__________ (payable upon signing Franchise Agreement)	Not applicable	Not applicable
2 And each additional Franchised Business	$__________	$__________	$__________

3.3. Cancellation. The Development Fee is fully earned and nonrefundable under all circumstances.

4. **Termination of Development Rights.**

4.1. Reasonableness. You represent that you have conducted your own independent investigation and analysis of the prospects for the Franchised Businesses to be opened within the Development Area. You also approve of the Development Schedule as being reasonable and viable. You also recognize that failure to open the Franchised Businesses required by the Development Schedule will be a material breach of this Amendment.

4.2. **<u>Extensions</u>.** We may, at our option, extend the time periods listed in the Development Schedule if you can demonstrate to our reasonable satisfaction that the need for additional time is due to unforeseeable delays that are not the result of your neglect, misconduct or financial inability. Any extension must be in writing.

4.3. **<u>Failure to Meet Development Schedule</u>.**

4.3.1. **<u>Termination of Amendment</u>.**

(a) In the event of your failure to meet the Development Schedule, we may (at our option) elect to terminate this Amendment.

(b) The termination will be effective 30 days after we give you written notice of termination if you have not cured the default and met the Development Schedule within the 30-day period.

(c) Any termination will end all your rights and future obligations under this Amendment. This includes your interests in the Development Areas and rights to open additional Franchised Businesses.

4.3.2. **<u>No Termination of Franchise Agreements</u>.**

(a) Your failure to meet the Development Schedule will <u>not</u> constitute a breach or default of the Franchise Agreement and will not be grounds for termination of the Franchise Agreement.

(b) If this Amendment is terminated because of your failure to meet the Development Schedule, the franchise agreements that you have entered into with us pursuant to this Amendment will not be affected by the termination and will not be terminated just because the Amendment is terminated.

4.4. **<u>Termination of Franchise Agreement</u>.**

4.4.1. Any material breach or default of this Amendment by you other than your failure to meet the Development Schedule will be a material default of the Franchise Agreement, and we will have all of the rights and remedies in the Franchise Agreement for that breach or default. Our rights include the right to terminate the Franchise Agreement and this Amendment as provided in the Franchise Agreement.

4.4.2. If you materially breach or default under the Franchise Agreement for your first Franchised Business, or under any of your other franchise agreements with us, we may terminate the Franchise Agreement for your first Franchised Business and this Amendment as provided in the Franchise Agreement.

5. **<u>Interpretation</u>.** In the event of any conflict between the express provisions of this Amendment and the Franchise Agreement or any franchise agreement for additional

Franchised Businesses entered into pursuant to this Amendment, the terms of this Amendment shall control. Except as expressly amended by this Amendment, the Franchise Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Multi-Store Amendment to be effective as of the date specified above.

"Franchisee"
[use for a corporation, partnership, limited liability company, trust, or other form of entity]:

____
(Full Legal Name of Entity)

By: ________________________________
(Signature)

____
(Type or Print Name)

Its: ________________________________
(Title)

"Franchisee"
[use for a sole proprietorship or ownership by multiple individuals]:

____
(Signature)

____
(Type or Print Name)

____
(Signature)

____
(Type or Print Name)

____
(Signature)

____
(Type or Print Name)

____
(Signature)

____
(Type or Print Name)

"Classy" CHRLS Enterprises, Inc.

By: ________________________________
(Signature)

____
(Type or Print Name)

Its: ________________________________
(Title)

EXHIBIT E

CLASSY CLOSETS OPERATIONS MANUAL
TABLE OF CONTENTS

EXHIBIT F

EXISTING FRANCHISES

INDEPENDENTLY OWNED AND OPERATED BY FRANCHISEES

(as of DECEMBER 31, 2017)

Location	Address	City, State, Zip	Phone	Company Name	Contact Person
ARIZONA					
Tucson	5037 S. Mill Avenue	Tempe, AZ 85282	520-326-7888	CBC Interiors, LLC	Joe Bowers Tim Conner
CALIFORNIA					
San Diego **(Escondido)**	2180 Chablis Court #108	Escondido, CA 92029	760-735-2545	Monaghan Pavitt Enterprises Inc.	Gary Pavitt Kate Monaghan
COLORADO					
Colorado Springs	4970 Paris Street	Denver, CO 80239	970-819-1296	MJ Pedersen Ent Inc.	Matt Pedersen Janna Pedersen Jake Green Joel McCoy
Denver	4970 Paris Street	Denver, CO 80239	970-819-1296	MJ Pedersen Ent Inc.	Matt Pedersen Janna Pedersen Jake Green Joel McCoy
Steamboat Springs	4970 Paris Street	Denver, CO 80239	970-219-1296	MJ Pedersen Ent Inc.	Matt Pedersen Janna Pedersen Jake Green Joel McCoy
KANSAS					
Norton	PO Box 191	Norton, KS 67654	785-871-0363	A Place for Everything	Nancy Kent
NEVADA					
Las Vegas	4630 S. Arville Street, Suites E&F	Las Vegas, NV 89103	702-207-2201	CCELV Corp	Matt & Debbie Knutson
Mesquite	521 W Mesquite Blvd. #B	Mesquite, NV 89027	702-346-2087	PD & C Gendron Enterprises, Inc.	Patrick Gendron
TEXAS					
Dallas **(Grapevine)**	1240 Texan Trail, #105	Grapevine, TX 76051	972-355-7687	Classy Innovations LLC	Jerry & Julie Caldwell
El Paso	6425 Boeing Dr., Suite B-6	El Paso, TX 79925	915-779-7007	Devmar Corp.	Tony Jaber

Location	Address	City, State, Zip	Phone	Company Name	Contact Person
UTAH					
Salt Lake City **(West Jordan)**	5585 West Wells Park Road	West Jordan, UT 84081	801-572-7712	Closet Masters Inc.	Roger Washburn
St. George	1316 S 400 E C-4	St. George, UT 84790	435-673-7830	Creative Storage Solutions, Inc.	Dwane Ovard

FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT YET OPENED

As of December 31, 2017

None.

CHANGES IN INDEPENDENTLY OWNED AND OPERATED BY FRANCHISEES

(after DECEMBER 31, 2017)

None.

OUTLETS OWNED AND OPERATED BY FRANCHISOR/AFFILIATE

(as of DECEMBER 31, 2017)

LOCATION	Address	City, State, Zip	Phone	Company Name	Contact Person
ARIZONA					
Chandler	**1251 S Nelson Drive**	**Chandler, AZ 85226**	**480-967-2200**	**Classy Closets, Etc., Inc.**	**Duane Standage Sherwood Hamblin**

CHANGES IN OUTLETS OWNED AND OPERATED BY FRANCHISOR/AFFILIATE

(after DECEMBER 31, 2017)

None.

EXHIBIT G

FORMER FRANCHISEES

As of DECEMBER 31, 2017

Franchisees whose agreements were terminated, cancelled or not renewed, or who ceased doing business during the period from January 1, 2017 through December 31, 2017 or who have not communicated with Classy since January 1, 2018 are listed in the chart below.

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

Franchisee Name and Last Known Residential or Corporate Address	**Location**	**Date of Termination**	**Notes**
None.			

EXHIBIT H

EXISTING DEALERS

(as of DECEMBER 31, 2017)

LOCATION	Address	City, State, Zip	Phone	Company Name	Owner(s)
TEXAS					
San Angelo	1523 Barbara Avenue	San Angelo, TX 76904	325-949-1609	Classy Closets	Keith King
WYOMING					
Jackson	PO Box 6736	Jackson, WY 83002	307-734-1587	Valley Closets	Sean Milne

EXHIBIT I

FORMER DEALERS

As of DECEMBER 31, 2017

Dealers whose agreements were terminated, cancelled or not renewed, or who ceased doing business during the period from January 1, 2017 through December 31, 2017, or who have not communicated with Classy since January 1, 2018 are listed in the chart below.

Dealer Name and Last Known Residential or Corporate Address and Telephone Number	Location	Date of Termination	Notes
None			

EXHIBIT J

CHRLS ENTERPRISES, INC.

AUDITED
FINANCIAL STATEMENTS
and
Independent Auditors' Report

For the Fiscal Years Ending

December 31, 2017 and 2016

and

December 31, 2016 and December 31, 2015

and

Unaudited Financial Statements

For the Seven-Month Period ending July 31, 2018

CHRLS Enterprises, Inc.
Balance Sheet
July 31, 2018

ASSETS		
CURRENT ASSETS:		
Cash	$	12,884
Accounts receivable, net of allowance of $0		25,659
Total current assets		38,543
Total assets	$	38,543
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$	3,950
Total current liabilites		3,950
Total liabilities		3,950
Stockholders' Equity		
Capital Stock		36,720
Additional paid-in-capital		14,800
Retained earnings (accumulated deficit)		(16,927)
Total equity		34,593
Total liabilities and equity	$	38,543

CHRLS Enterprises, Inc.

Statement of Income and changes in Retained Earnings

For the seven months ended July 31, 2018

REVENUES		
Royalty revenue	$	212,294
Royalty revenue - related party		200,000
EXPENSES		
Royalties		206,000
Office		904
Total expenses		206,904
Net income		205,390
RETAINED EARNINGS (Accumulated Deficit) - December 31, 2017		(55,817)
Dividends		166,500
RETAINED EARNINGS (Accumulated Deficit) - July 31, 2018	$	(16,927)

EXHIBIT J

CHRLS ENTERPRISES, INC.

AUDITED
FINANCIAL STATEMENTS
and
Independent Auditors' Report

For the Fiscal Years Ending

December 31, 2017 and 2016

and

December 31, 2016 and December 31, 2015

CHRLS Enterprises, Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

CHRLS Enterprises, Inc.
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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FARNSWORTH COMPANY, PLLC
Certified Public Accountant

Independent Auditor's Report

To the Board of Directors and Stockholders of
CHRLS Enterprises, Inc.

We have audited the accompanying financial statements of CHRLS Enterprises, Inc, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHRLS Enterprises, Inc. as of December 31, 2017 and 2016, 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

Farnsworth Company, PLLC

Chandler, Arizona
June 19, 2018

3800 S. Alma School Rd. Suite 124 Chandler, AZ 85248 | **P**: 480-968-1500 **F**: 480-491-9886 |

CHRLS Enterprises, Inc.
BALANCE SHEET
DECEMBER 31, 2017 AND 2016

ASSETS

CURRENT ASSETS:	2017	2016
Cash	$ 211,695	$ 254,039
Accounts receivable, net of allowance of $0 for both 2017 and 2016	34,101	31,034
Accounts receivable - related party	9,691	90,722
Total current assets	255,487	375,795
Total assets	$ 255,487	$ 375,795

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
CURRENT LIABILITIES		
Accounts payable - related party	$ 259,784	$ 253,584
Total current liabilities	259,784	253,584
Total liabilities	259,784	253,584
Stockholders' Equity		
Capital Stock	36,720	36,720
Additional paid in capital	14,800	14,800
Retained Earnings (accumulated deficit)	(55,817)	70,691
Total equity (deficit)	(4,297)	122,211
Total equity and liabilities	$ 255,487	$ 375,795

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017		2016
REVENUES				
Royalty revenue	$	328,401	$	272,904
Royalty revenue - related party		209,691		340,733
EXPENSES				
Professional fees		7,100		6,935
Management fees		186,000		180,000
Royalty payment		170,000		25,000
Office expenses		-		196
Total expenses		363,100		212,131
Net income	$	174,992	$	401,506

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock (1)	Additional Paid in Capital	Accumulated Deficit	Total
Balance December 31, 2015	$ 36,720	$ 14,800	$ (218,315)	$ (166,795)
Net Income			401,506	401,506
Dividends			(112,500)	(112,500)
Balance December 31, 2016	$ 36,720	$ 14,800	$ 70,691	$ 122,211
Net Income			174,992	174,992
Dividends			(301,500)	(301,500)
Balance December 31, 2017	$ 36,720	$ 14,800	$ (55,817)	$ (4,297)

(1) Par Value: $1.00 per share
Authorized: 1,000,000 shares
Issued and outstanding as of December 31, 2017 and December 31, 2016: 36,720 shares

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 174,992	$ 401,506
Adjustments to reconcile net income to net cash		
Changes in operating assets and liabilities:		
Accounts receivable (net)	(3,067)	(2,401)
Accounts receivable - related party	81,031	(90,722)
Accounts payable - related party	6,200	86,084
Net cash provided by operating activities	259,156	394,467
CASH FLOW FROM INVESTING ACTIVITIES:		
	-	-
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of note payable - related party	-	(34,184)
Distributions to owners	(301,500)	(112,500)
Net cash provided by (used in) financing activities	(301,500)	(146,684)
Net increase (decrease) in cash	(42,344)	247,783
CASH AT BEGINNING OF YEAR	254,039	6,256
CASH AT END OF YEAR	$ 211,695	$ 254,039

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business:

CHRLS Enterprises, Inc. (*the "Company" or "CHRLS"*) was incorporated in the state of Arizona on November 22, 2004. The Company sells and supports franchise business systems under the trademark "Classy® Closets" (Note 3). This franchised business system includes designing, manufacturing, and installing custom cabinet and closet systems.

Management Estimates:

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

Cash and Cash Flows:

The Company maintains its cash in bank deposit accounts, which at times, may exceed the federally insured limits. The Company has not experienced any losses in such accounts, and does not believe it is subject to any credit risks involving its cash. At December 31, 2017, the Company's did not have funds in excess of federally insured limits.

For purposes of the statement of cash flows, cash includes demand deposits, time deposits and short-term cash equivalent investments with original maturities of less than three months at the date of purchase. None of the Company's cash is restricted.

Accounts Receivable:

Receivables consist substantially of continuing franchise fees (royalties) from existing franchisees. Management's assessment is that no allowance for doubtful accounts is needed and none has been provided.

Revenue Recognition:

Consistent with FASB ASC 952, *Accounting for Franchisors*, the Company recognizes revenues from franchise sales when all material services or conditions related to the sale have been substantially performed or satisfied by the Company. Substantial performance for the Company means that (a) it has no remaining obligation or intent by agreement, trade practice or law to refund any cash received or forgive any notes or accounts receivable, (b) substantially all of the initial services required by the franchise agreement have been performed and (c) no other conditions or obligations related to the determination of substantial performance exist. Royalty revenues from franchisees, which are generally based on their sales of Company products, are generally payable monthly and are recognized when earned.

Fair Value of Financial Instruments:

FASB ASC 820, *Fair Value Measurement and Disclosures*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of cash and payables approximate their carrying amounts due to the short maturity of these instruments.

Advertising Costs:

Advertising costs are expensed as incurred. The Company did not incur any advertising expense for the years ended December 31, 2017 and December 31, 2016.

Evaluation of Subsequent Events:

Management has evaluated subsequent events through June 19, 2018, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

2. INCOME TAXES

The Company has elected to be treated as an S corporation for federal and state income tax purposes. As an S corporation, the Company does not pay federal or state income taxes. Rather, its income, deductions, and credits are allocated to its individual stockholders who then report these amounts on their respective federal and state income tax returns. Accordingly, the financial statements do not include a provision for federal or state income taxes. As a result, there are no deferred tax assets or liabilities and no differences between the tax bases and reported amounts of the Company's assets and liabilities.

The federal and state income tax returns for 2015, 2016 and 2017 are subject to examination by taxing authorities.

3. RELATED PARTY TRANSACTIONS

Classy® Closets Etc., Inc. (CCEI)

CCEI is an Arizona corporation owned by the stockholders of the Company. The Company entered into a management agreement with CCEI whereby CCEI would provide various management and administrative services to the Company. During the year ended December 31, 2017, management fees incurred under this agreement totaled $186,000. During the year ended December 31, 2016, management fees incurred under this agreement totaled $180,000.

Classy Etc., Inc. (CEI)

CEI is an Arizona corporation owned by the stockholders of the Company. The Company entered into a license agreement with CEI for the use of the trade name 'Classy® Closets'. During the years ended December 31, 2017 and December 31, 2016, the Company paid CEI $170,000 and $25,000, respectively, as a royalty for the use of the trade name.

The balances due CCEI and CEI, in the aggregate, as December 31, 2017 and December 31, 2016, respectively, were $259,784 and $253,584 and are included on the balance sheet as *Accounts payable - related party*.

For the year ending December 31, 2017, CEI provided royalty revenues to the Company in the amount of $209,691. The unpaid balance as of December 31, 2017 is $9,691 and is included on the balance sheet as *Accounts receivable - related party*.

4. COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the Company was not obligated under any capital or operating lease agreements, subject to any legal claims or lawsuits, or subject to any other commitments or contingencies.

CHRLS Enterprises, Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

CHRLS Enterprises, Inc.
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

CONTENTS

FARNSWORTH COMPANY, PLLC
Certified Public Accountant

Independent Auditor's Report

To the Board of Directors and Stockholders of
CHRLS Enterprises, Inc.

We have audited the accompanying financial statements of CHRLS Enterprises, Inc, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHRLS Enterprises, Inc. as of December 31, 2016 and 2015, 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

Farnsworth Company, PLLC

Chandler, Arizona
March 22, 2017

CHRLS Enterprises, Inc.
BALANCE SHEET
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS:		
Cash	$ 254,039	$ 6,256
Accounts receivable, net of allowance of $0 for both 2016 and 2015	31,034	28,633
Accounts receivable - related party	90,722	-
Total current assets	375,795	34,889
Total assets	$ 375,795	$ 34,889

LIABILITIES AND STOCKHOLDERS' EQUITY

	2016	2015
CURRENT LIABILITIES		
Accounts payable - related party	$ 253,584	$ 167,500
Current portion of note payable - related party	-	5,526
Total current liabilities	253,584	173,026
Note payable - related party	-	28,658
Total liabilities	253,584	201,684
Stockholders' Equity		
Capital Stock	36,720	36,720
Additional paid in capital	14,800	14,800
Retained Earnings (accumulated deficit)	70,691	(218,315)
Total equity (deficit)	122,211	(166,795)
Total equity and liabilities	$ 375,795	$ 34,889

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUES		
Royalty revenue	$ 272,904	$ 255,280
Royalty revenue - related party	340,733	-
EXPENSES		
Professional fees	6,935	-
Management fees	180,000	190,000
Office expenses	196	-
Royalty payment	25,000	25,000
Total expenses	212,131	215,000
Net income	$ 401,506	$ 40,280

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock (1)	Additional Paid in Capital	Accumulated Deficit	Total
Balance December 31, 2014	$ 51,000	$ -	$ (178,891)	$ (127,891)
Net Income			40,280	40,280
Dividends			(45,000)	(45,000)
Retire Shares	(24,480)		(34,704)	(59,184)
Issue Shares	10,200	14,800		25,000
Balance December 31, 2015	$ 36,720	$ 14,800	$ (218,315)	$ (166,795)
Net Income			401,506	401,506
Dividends			(112,500)	(112,500)
Balance December 31, 2016	$ 36,720	$ 14,800	$ 70,691	$ 122,211

(1) Par Value: $1.00 per share
Authorized: 1,000,000 shares
Issued and outstanding as of December 31, 2016 and December 31, 2015: 36,720 shares

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016		2015
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Income	$	401,506	$	40,280
Adjustments to reconcile net income to net cash				
Changes in operating assets and liabilities:				
Accounts receivable (net)		(2,401)		(1,827)
Accounts receivable - related party		(90,722)		
Accounts payable		86,084		8,000
Net cash provided by operating activities		394,467		46,453
CASH FLOW FROM INVESTING ACTIVITIES:				
		-		-
CASH FLOW FROM FINANCING ACTIVITIES:				
Proceeds from note payable - related party		-		59,184
Repayment of note payable - related party		(34,184)		(25,000)
Issuance of shares of common stock		-		25,000
Distributions to owners		(112,500)		(45,000)
Redemption of shares of common stock		-		(59,184)
Net cash provided by (used in) financing activities		(146,684)		(45,000)
Net increase in cash		247,783		1,453
CASH AT BEGINNING OF YEAR		6,256		4,803
CASH AT END OF YEAR	$	254,039	$	6,256

See accompanying notes and independent auditor's report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business:

CHRLS Enterprises, Inc. (*the "Company" or "CHRLS"*) was incorporated in the state of Arizona on November 22, 2004. The Company sells and supports franchise business systems under the trademark "Classy® Closets" (Note 3). This franchised business system includes designing, manufacturing, and installing custom cabinet and closet systems.

Management Estimates:

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

Cash and Cash Flows:

The Company maintains its cash in bank deposit accounts, which at times, may exceed the federally insured limits. The Company has not experienced any losses in such accounts, and does not believe it is subject to any credit risks involving its cash. At December 31, 2016, the Company's had approximately $4,000 in excess of federally insured limits.

For purposes of the statement of cash flows, cash includes demand deposits, time deposits and short-term cash equivalent investments with original maturities of less than three months at the date of purchase. None of the Company's cash is restricted.

Accounts Receivable:

Receivables consist substantially of continuing franchise fees (royalties) from existing franchisees. Management's assessment is that no allowance for doubtful accounts is needed and none has been provided.

Revenue Recognition:

Consistent with FASB ASC 952, *Accounting for Franchisors*, the Company recognizes revenues from franchise sales when all material services or conditions related to the sale have been substantially performed or satisfied by the Company. Substantial performance for the Company means that (a) it has no remaining obligation or intent by agreement, trade practice or law to refund any cash received or forgive any notes or accounts receivable, (b) substantially all of the initial services required by the franchise agreement have been performed and (c) no other conditions or obligations related to the determination of substantial performance exist. Royalty revenues from franchisees, which are generally based on their sales of Company products, are generally payable monthly and are recognized when earned.

Fair Value of Financial Instruments:

FASB ASC 820, *Fair Value Measurement and Disclosures*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of cash and payables approximate their carrying amounts due to the short maturity of these instruments.

Advertising Costs:

Advertising costs are expensed as incurred. The Company did not incur any advertising expense for the years ended December 31, 2016 and December 31, 2015.

Evaluation of Subsequent Events:

Management has evaluated subsequent events through March 22, 2017, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

2. INCOME TAXES

The Company has elected to be treated as an S corporation for federal and state income tax purposes. As an S corporation, the Company does not pay federal or state income taxes. Rather, its income, deductions, and credits are allocated to its individual stockholders who then report these amounts on their respective federal and state income tax returns. Accordingly, the financial statements do not include a provision for federal or state income taxes. As a result, there are no deferred tax assets or liabilities and no differences between the tax bases and reported amounts of the Company's assets and liabilities.

The federal and state income tax returns for 2013, 2014, 2015 and 2016 are subject to examination by taxing authorities.

3. RELATED PARTY TRANSACTIONS

Classy® Closets Etc., Inc. (CCEI)

CCEI is an Arizona corporation owned by the stockholders of the Company. The Company entered into a management agreement with CCEI whereby CCEI would provide various management and administrative services to the Company. During the year ended December 31, 2016, management fees incurred under this agreement totaled $180,000. During the year ended December 31, 2015, CCEI provided management services totaling $190,000.

Classy Etc., Inc. (CEI)

CEI is an Arizona corporation owned by the stockholders of the Company. The Company entered into a license agreement with CEI for the use of the trade name 'Classy® Closets'. During the years ended December 31, 2016 and December 31, 2015, the Company paid CEI $25,000 and $25,000, respectively, as a royalty for the use of the trade name.

The balances due CCEI and CEI, in the aggregate, as December 31, 2016 and December 31, 2015, respectively, were $253,584 and $167,500 and are included on the balance sheet as *Accounts payable - related party.*

For the year ending December 31, 2016, CEI provided royalty revenues to the Company in the amount of $340,733. The unpaid balance as of December 31, 2016 is $90,722 and is included on the balance sheet as *Accounts receivable - related party.*

4. NOTE PAYABLE - RELATED PARTY

In 2015, the Company provided an uncollateralized note payable to a related party. The unpaid balance as of December 31, 2015 was $34,184. This balance was paid in full during 2016.

5. COMMITMENTS AND CONTINGENCIES

At December 31, 2016, the Company was not obligated under any capital or operating lease agreements, subject to any legal claims or lawsuits, or subject to any other commitments or contingencies.

EXHIBIT K

AGENTS FOR SERVICE OF PROCESS

Our statutory agent for service of process in Arizona, its state of incorporation is:

Louis A. Silverman
4450 S. Rural Road C-120
Tempe, AZ 85282

In addition, we have a statutory agent for service of process in the following states:

California	California Commissioner of Corporations 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (213) 576-7500
Washington	Washington Department of Financial Institutions P.O. Box 41200 Olympia, WA 98504-1200 (360) 902-8700

EXHIBIT L

RECEIPT FOR COMPLETED DOCUMENTS

IF WE OFFER YOU A FRANCHISE, WE MUST PROVIDE YOU WITH COMPLETED COPIES OF THE FRANCHISE AGREEMENT AND ALL RELATED AGREEMENTS TO BE EXECUTED BY THE PARTIES AT LEAST SEVEN CALENDAR DAYS BEFORE YOU SIGN THE AGREEMENTS.

I have received completed copies of the following agreements:

☐ Exhibit B State Law Addendum

☐ Exhibit C Franchise Agreement with its Exhibits:
1 – Terms (with blanks filled in)
2 - Guaranty (form with blanks)
3 - Confidentiality and Noncompetition Agreement (form with blanks)

Copy(ies) of Exhibit 2 - the Guaranty of the Franchise Agreement (with blanks filled in) for the following individuals:

☐ ________________________________
☐ ________________________________
☐ ________________________________
☐ ________________________________
☐ ________________________________

Copy(ies) of Exhibit 3 - the Confidentiality and Noncompetition Agreement (with blanks filled in) for the following individuals:

☐ ________________________________
☐ ________________________________
☐ ________________________________
☐ ________________________________
☐ ________________________________

☐ Exhibit D Multi-Store Amendment
☐ Exhibit L Receipt for Completed Documents
☐ Exhibit M Confirmation of Sales Procedures
☐ Exhibit N Dealer Conversion Amendment

I received these completed documents on ______________________, ______.

Classy has provided these documents to me for informational purposes. My signing this receipt does not obligate me in any way, and does not obligate Classy to grant me a franchise.

____
Individually and, if applicable, as an officer, partner or manager of and on behalf of

____,

a __________________ corporation,

a __________________ partnership,

a __________________ limited liability company.

SUBSCRIBED AND SWORN to before me this ___ day of _______________, ____.

____
Notary Public

My Commission Expires:

____

EXHIBIT L

RECEIPT FOR COMPLETED DOCUMENTS

IF WE OFFER YOU A FRANCHISE, WE MUST PROVIDE YOU WITH COMPLETED COPIES OF THE FRANCHISE AGREEMENT AND ALL RELATED AGREEMENTS TO BE EXECUTED BY THE PARTIES AT LEAST SEVEN CALENDAR DAYS BEFORE YOU SIGN THE AGREEMENTS.

I have received completed copies of the following agreements:

☐ Exhibit B State Law Addendum

☐ Exhibit C Franchise Agreement with its Exhibits:
1 – Terms (with blanks filled in)
2 - Guaranty (form with blanks)
3 - Confidentiality and Noncompetition Agreement (form with blanks)

Copy(ies) of Exhibit 2 - the Guaranty of the Franchise Agreement (with blanks filled in) for the following individuals:

☐ ______________________________
☐ ______________________________
☐ ______________________________
☐ ______________________________
☐ ______________________________

Copy(ies) of Exhibit 3 - the Confidentiality and Noncompetition Agreement (with blanks filled in) for the following individuals:

☐ ______________________________
☐ ______________________________
☐ ______________________________
☐ ______________________________
☐ ______________________________

. ☐ Exhibit D Multi-Store Amendment
☐ Exhibit L Receipt for Completed Documents
☐ Exhibit M Confirmation of Sales Procedures
☐ Exhibit N Dealer Conversion Amendment

I received these completed documents on _____________________, ______.

Classy has provided these documents to me for informational purposes. My signing this receipt does not obligate me in any way, and does not obligate Classy to grant me a franchise.

____
Individually and, if applicable, as an officer, partner or manager of and on behalf of

____,

a __________________ corporation,

a __________________ partnership,

a __________________ limited liability company.

SUBSCRIBED AND SWORN to before me this ___ day of ______________, ____.

____
Notary Public

My Commission Expires:

____

EXHIBIT M

CONFIRMATION OF SALES PROCEDURES

I hereby confirm the following facts to Classy and to its Officers, Directors, and Management, on behalf of myself personally, and if applicable, as an Officer or Partner of a corporation or partnership and on its behalf:

1. Date I received a copy of the Franchise Disclosure Document dated __________, 20____ of Classy and the following Exhibits attached thereto:

   Exhibit A – State Agencies
   Exhibit B – State Law Addendum
   Exhibit C – Franchise Agreement and its Exhibits
   1 - Terms
   2 - Guaranty
   3 - Confidentiality and Noncompetition Agreement
   Exhibit D – Multi-Store Amendment
   Exhibit E – Tables of Contents of the Manual
   Exhibit F – Existing Franchisees
   Exhibit G – Former Franchisees
   Exhibit H – Existing Dealers
   Exhibit I – Former Dealers
   Exhibit J – Financial Statements
   Exhibit K – Agents for Service of Process
   Exhibit L – Receipt for Completed Documents
   Exhibit M – Confirmation of Sales Procedures
   Exhibit N – Dealer Conversion Amendment
   Exhibit O – End-User License Agreement
   Exhibit P – Receipts

2. Date I received copies of the following supplemental disclosures: ____________ Date
   ____ ____________ Initial
   ____
   ____.

3. I have read and understand the entire Disclosure Document and all the Exhibits, and the supplemental disclosures (if any). ____________ Initial

4. Classy has recommended that I consult with professional advisors with respect to this transaction. ____________ Initial

5. Date of my first face-to-face meeting with any salesman, agent or Officer of Classy or its franchise broker (name of salesman, agent or broker: ______________________________).

______________ Date

______________ Initial

6. Date I received copies of the State Law Addendum (except for signatures) with all blanks filled in.

______________ Date

______________ Initial

7. If I am purchasing a location from Classy that was previously owned by a franchisee, the date that I received the former franchisee's contact information, the time period that the franchisee controlled the location, the reason for the ownership change and the length of time that Classy controlled the location.

______________ Date

______________ Initial

8. Date I received copies of the Franchise Agreement with its attached Exhibits (check the boxes and fill in the names for those you received), each completed (except for signature) with all blanks filled in where applicable:

______________ Date

______________ Initial

☐ Classy's Franchise Agreement and its attached Exhibits:
Exhibit 1 – Franchisee Information (with blanks filled in)
Exhibit 2 – Guaranty (form with blanks)
Exhibit 3 – Confidentiality and Noncompetition Agreement (form with blanks)

Copy(ies) of Exhibit 2 the Guaranty (with blanks filled in) for the following individuals

☐ ____
☐ ____
☐ ____
☐ ____
☐ ____

Copy(ies) of Exhibit 3 - the Confidentiality and Noncompetition Agreement (with blanks filled in) for the following individuals:

☐ ____
☐ ____
☐ ____
☐ ____
☐ ____

9. Date I received copies of the Multi-Store Amendment, completed (except for signatures) with all blanks filled in.

______________ Date

______________ Initial

10. Date I received copies of the completed Dealer Conversion Amendment (except for signatures) with all blanks filled in where applicable: ____________ Date

____________ Initial

11. Date I actually signed the Franchise Agreement: ____________ Date

____________ Initial

12. Date first payment was made to Classy: ____________ Date

____________ Initial

13. No oral, written or visual claim or representation which contradicted the Disclosure Document was made to me or, to the best of my knowledge, to anyone associated with me, except: ____________ Initial

____

____

____.

14. No oral, written or visual claim or representation was used to calculate, state or suggest any sales, income or profit levels, to me or, to the best of my knowledge, to anyone associated with me, except: ____________ Initial

____

____

____

____.

15. I understand that the design and sale of storage solutions involves inherent risks, that there is no assurances of success, and that my business can fail. ____________ Initial

Dated: _______________, 20____

___________________________________	____________________________________
(Name Printed or Typed)	Signature as an Individual and on Behalf of:
___________________________________	____________________________________
Street Address	a ________________________ corporation
___________________________________	a ________________________ partnership
___________________________________	or a ____________ limited liability company
City, State, Zip	

EXHIBIT N

DEALER CONVERSION AMENDMENT

THIS DEALER CONVERSION AMENDMENT (this "**Amendment**") is made by CHRLS Enterprises, Inc., an Arizona corporation ("**Classy**," "**us**" or "**we**"), and ____________________ ____ ("**Franchisee,**" "**Dealer**" or "**you**"), as an amendment to the Franchise Agreement (the "**Franchise Agreement**") dated as of _________________, 20___ between you and us. This Amendment is to be effective as of the Effective Date of the Franchise Agreement.

RECITALS:

1. Dealer has either been an authorized dealer for storage solutions under an business name not affiliated with us or our affiliates or has been an authorized dealer for the design and installation of Classy Closet® brand custom storage solutions for homes and offices. Dealer and Classy Closets Etc., Inc. ("**Classy's Affiliate**"), which is an affiliate of Classy, are terminating their dealer relationship, and Dealer and Classy are entering into the Franchise Agreement, under the modified special terms and conditions as set forth in this Amendment.

2. This Amendment is hereby incorporated by reference into the Franchise Agreement. All capitalized terms used in this Amendment have the meanings defined in the Franchise Agreement unless they are specifically defined differently in this Amendment.

AGREEMENT:

A. <u>Initial Franchise Fee</u>. The checked box shows any change applicable to Franchisee.

(1) ☐ All of Section 4.1 of the Franchise Agreement is hereby deleted. We hereby waive payment of the entire initial Franchise Fee.

(2) ☐ None of Section 4.1 of the Franchise Agreement is deleted.

B. <u>Opening</u>. Section 1.3 of the Franchise Agreement is hereby deleted and replaced with the following new Section 1.3:

> "**1.3 <u>Opening</u>.** Franchisee must begin operating the Franchise Business on the Effective Date in compliance with all the provisions of the Franchise Agreement, as amended by this Amendment."

C. <u>Termination of Classy Closets, Etc. Dealership Agreement</u>. Any dealer relationship and any agreements between you and Classy's Affiliate relating to the dealership are hereby terminated effective as of the Effective Date of the Franchise Agreement. However, Classy's Affiliate remains obligated to ship product to you on orders you have previously placed and it has accepted; you remain obligated to pay for that product; and all warranties for that product remain in full force and effect.

D. <u>Mutual General Waivers and Releases Relating to the Dealer Relationship</u>.

(1) If Dealer has had a dealer relationship with Classy's Affiliate, then Dealer and Dealer's Key Individuals (collectively referred to in this Section I as the "**Dealer Parties**") hereby fully release, remise and forever discharge Classy's Affiliate and

any of its Affiliates, and their past and present shareholders, officers, directors, agents and employees (collectively referred to in this Section I as the "**Classy Parties**," for, from and against any and all claims, liens, demands, causes of action, controversies, offsets, obligations, losses, damages and liabilities of every kind and character whatsoever, including, without limitation, any action, omission, misrepresentation or other basis of liability founded either in tort or contract and the duties arising thereunder (collectively the "**Claims**"), that the releasing party has had in the past, or now has, whether known or unknown, absolute or contingent, whether currently existing or hereafter asserted, by reason of any matter, cause or thing set forth in, relating to or arising out of, or in any way connected with or resulting from the offer, sale or performance of the dealership relationship and contracts between any of the Dealer Parties and any of the Classy Parties; *provided, however*, that the foregoing release and discharge shall not apply to any obligations or rights as expressly set forth in the Franchise Agreement or this Amendment.

(a) If any Dealer Party is a resident of California, then the release in the previous paragraph includes without limitation any claim that might be asserted by any of the Dealer Parties under either the California Franchise Investment Law, California Corporations Code Sections 31000 through 31516, or the California Franchise Relations Act, California Business and Professions Code, Section 20000 through 20043; and

(b) **If any Dealer Party is a resident of California, then that Dealer Party expressly waives all rights, protections, privileges and benefits under Section 1542 of the Civil Code of California, which states:**

> **A general release does not extend to claims which the [party giving the release] does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the [party receiving the release].**

(2) Each of the Classy Parties hereby fully releases, remises and forever discharges each of the Dealer Parties for, from and against any and all Claims, that the releasing party has had in the past, or now has, whether known or unknown, absolute or contingent, whether currently existing or hereafter asserted, by reason of any matter, cause or thing set forth in, relating to or arising out of, or in any way connected with or resulting from the offer, sale or performance of the dealership relationship and contracts between any of the Dealer Parties and any of the Classy Parties; *provided, however*, that the foregoing release and discharge shall not apply to any obligations or rights as expressly set forth in the Franchise Agreement or this Amendment.

E. **Interpretation.** In the event of any conflict between the express provisions of this Amendment and the Franchise Agreement, the terms of this Amendment shall control. Except as expressly amended by this Amendment, the Franchise Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Dealer Conversion Amendment to be effective as of the date specified above.

"Dealer"
[use for a corporation, partnership, limited liability company, trust, or other form of legal entity]**:**

____
(Full Legal Name of Entity)

By: ______________________________
(Signature)

____
(Type or Print Name)

Its: ______________________________
(Title)

"Dealer"
[use for a sole proprietorship or ownership by multiple individuals]:

____
(Signature)

____
(Type or Print Name)

____
(Signature)

____
(Type or Print Name)

"CLASSY": CHRLS Enterprises, Inc.

By: ______________________________
(Signature)

____
(Type or Print Name)

Its: ______________________________
(Title)

==

CONSENT AND APPROVAL BY CLASSY CLOSETS ETC., INC.

In consideration of the foregoing release, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and subject to the conditions in the foregoing Dealer Conversion Amendment, Classy Closets Etc., Inc. hereby agrees to the termination of the dealer relationship and agreements as provided in Section H of the foregoing Amendment, and hereby approves and agrees to the waivers and releases set forth in Section I of the foregoing Amendment.

Dated: ________________, 20__

Classy Closets Etc., Inc.
an Arizona corporation

By: ______________________________
(Signature)

____
(Type or Print Name)

Its: ______________________________
(Title)

EXHIBIT O

Classy Closets Etc., Inc. End-User License Agreement

It is important that you read this agreement in its entirety before proceeding further with the installation of this product. This End-User License Agreement ("EULA") is a legal agreement between you (either an individual or a single entity) and Classy Closets Etc, Inc. ("CCEI") for this CCI software product, which includes computer software and may include associated media, printed materials, and "online" or electronic documentation (collectively, "SOFTWARE PRODUCT"). By installing, copying, or otherwise using the SOFTWARE PRODUCT, you agree to be bound by the terms and conditions of this EULA. If you do not agree to the terms of this EULA, you may not use the SOFTWARE PRODUCT.

Software Product License

The SOFTWARE PRODUCT is protected by copyright laws and international copyright treaties, as well as other intellectual property laws and treaties. The SOFTWARE PRODUCT is licensed, not sold. English shall be deemed the language that controls the terms of this EULA. This EULA describes your rights with respect to the SOFTWARE PRODUCT and its components.

1. **GRANT OF LICENSE.**

This EULA grants you the following rights: You may install and use one (1) copy of the SOFTWARE PRODUCT on a single computer. You must obtain a supplementary license from CCEI before using the software with linked or networked systems, multiple CPU's, or emulation on a mainframe or computer.

2. **DESCRIPTION OF OTHER RIGHTS AND LIMITATIONS.**

Support Services. CCI may provide you with support services related to the SOFTWARE PRODUCT ("Support Services"). Use of Support Services is governed by the CCEI policies and programs described in the user manual, in "online" documentation and/or other CCI-provided materials. Any supplemental software code provided to you as part of the Support Services shall be considered part of the SOFTWARE PRODUCT and subject to the terms and conditions of this EULA. With respect to technical information you provide to CCI as part of the Support Services, CCEI may use such information for its business purposes, including for product support and development. CCEI will not utilize such technical information in a form that personally identifies you.

Limitations on Reverse Engineering, Decompilation, and Disassembly. You may not reverse engineer, decompile, or disassemble the SOFTWARE PRODUCT, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation.

Rental. You may not rent, lease or lend the SOFTWARE PRODUCT.

Software Transfer. You may permanently transfer all of your rights under this EULA, provided you retain no copies, you transfer all of the SOFTWARE PRODUCT (including all component parts, the media and printed materials, any upgrades, this EULA, and, if applicable, the Certificate of Authenticity), and the recipient agrees to the terms of this EULA.

3. NON-GRANTED RIGHTS.

All rights not expressly granted herein are reserved by CCEI.

4. TERMINATION.

Without prejudice to any other rights, CCEI may terminate this EULA if you fail to comply with the terms and conditions of this EULA. In such event, you must destroy all copies of the SOFTWARE PRODUCT and all of its component parts.

5. COPYRIGHT.

All title and copyrights in and to the SOFTWARE PRODUCT (including but not limited to any images, photographs, animations, video, audio, music, text, and "applets" incorporated into the SOFTWARE PRODUCT), the accompanying printed materials, and any copies of the SOFTWARE PRODUCT are owned by CCI or its suppliers. The SOFTWARE PRODUCT is protected by copyright laws and international treaty provisions. Therefore, you must treat the SOFTWARE PRODUCT like any other copyrighted material, except that you are given permission to make one copy of the enclosed SOFTWARE PRODUCT for backup purposes, in machine-readable form, or you may copy this product to hard disk and retain the original media for backup. You may not copy the printed materials accompanying the SOFTWARE PRODUCT without the express written permission of CCI.

6. GOVERNMENT RESTRICTED RIGHTS.

All SOFTWARE PRODUCT and documentation provided to the U.S. or Canadian Government, or any of its agencies or contractors pursuant to solicitations issued on or after December 1, 1995 is provided with the commercial rights and restrictions described elsewhere herein. All SOFTWARE PRODUCT provided to the U.S. Government pursuant to solicitations issued prior to December 1, 1995 is provided with RESTRICTED RIGHTS as provided for in FAR, 48 CFR 52.227-14 (JUNE 1987) or FAR, 48 CFR 252.227-7013 (OCT 1988), as applicable.

7. EXPORT RESTRICTIONS.

You acknowledge that the SOFTWARE PRODUCT licensed hereunder is subject to the export control laws and regulations of the U.S.A., and any amendments thereof. You confirm that with respect to the SOFTWARE PRODUCT, you will not export or re-export it, directly or indirectly, to any countries that are subject to U.S.A. export restrictions. You further acknowledge that the SOFTWARE PRODUCT may include technical data subject to export and re-export restrictions imposed by U.S.A. law.

8. JURISDICTION.

This EULA is governed by the laws of the State of Arizona. Each of the parties hereto irrevocably agrees to the jurisdiction of the courts in the State of Arizona and further agrees to commence any litigation that may arise hereunder in the courts located in the State of Arizona. If this product was acquired outside the United States, then local law may apply.

9. LIMITED WARRANTY.

NO WARRANTIES. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, CCI AND ITS SUPPLIERS DISCLAIM ALL WARRANTIES AND CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE AND NON-INFRINGEMENT, WITH REGARD TO THE SOFTWARE PRODUCT, AND THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES. THIS LIMITED WARRANTY GIVES YOU SPECIFIC LEGAL RIGHTS. YOU MAY HAVE OTHERS, WHICH VARY FROM STATE OR PROVINCE/JURISDICTION TO STATE OR PROVINCE/JURISDICTION.

LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL CCEI OR ITS SUPPLIERS BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, OR CONSEQUENTIAL DAMAGES WHATSOEVER (INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOSS OF BUSINESS PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, OR ANY OTHER PECUNIARY LOSS) ARISING OUT OF THE USE OF OR INABILITY TO USE THE SOFTWARE PRODUCT OR THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES, EVEN IF CCI HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN ANY CASE, CCEI'S ENTIRE LIABILITY UNDER ANY PROVISION OF THIS EULA SHALL BE LIMITED TO THE GREATER OF THE AMOUNT ACTUALLY PAID BY YOU FOR THE SOFTWARE PRODUCT OR US$5.00; PROVIDED HOWEVER, IF YOU HAVE ENTERED INTO A CCI SUPPORT SERVICES AGREEMENT, CCI'S ENTIRE LIABILITY REGARDING SUPPORT SERVICES SHALL BE GOVERNED BY THE TERMS OF THAT AGREEMENT. BECAUSE SOME STATES, PROVINCES AND JURISDICTIONS DO NOT ALLOW THE EXCLUSION OR LIMITATION OF LIABILITY, THE ABOVE LIMITATION MAY NOT APPLY TO YOU.

10. GENERAL.

This Agreement is the entire Agreement between CCEI and the end-user, and supersedes any other written or verbal agreement, or communications or advertising, with respect to the contents of this SOFTWARE PRODUCT and any other material contained herein. If you have any questions concerning this Agreement, please call CCEI at (800) 992-2448, or write to Classy Closets Etc., Inc., 1251 S. Nelson Drive, Chandler, AZ. 85226.

Please register today! Once you have registered, we have the ability to notify you of any upcoming changes or upgrades, and you will be entitled to news and benefits available only to registered customers.

Trademarks

ClassyCAD, ClassyCAD Pro, ClassyCAD LT are either registered trademarks or trademarks of Classy Etc., Inc.

All other product names or trademarks mentioned herein are trademarks of the respective owners.

EXHIBIT P
RECEIPTS

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF WE OFFER YOU A FRANCHISE, WE MUST PROVIDE THIS DISCLOSURE DOCUMENT TO YOU 14 CALENDAR DAYS BEFORE YOU SIGN A BINDING AGREEMENT WITH, OR MAKE PAYMENT TO US OR AN AFFILIATE IN CONNECTION WITH THE PROPOSED FRANCHISE SALE OR GRANT.

NEW YORK REQUIRES THAT WE GIVE YOU THIS DISCLOSURE DOCUMENT AT THE EARLIER OF THE FIRST PERSONAL MEETING OR 10 BUSINESS DAYS BEFORE THE EXECUTION OF THE FRANCHISE OR OTHER AGREEMENT OR THE PAYMENT OF ANY CONSIDERATION 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 OR OTHER AGREEMENT OF THE PAYMENT OF ANY CONSIDERATION, WHICHEVER OCCURS FIRST.

IF WE DO NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT OR 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 YOUR STATE AGENCY LISTED IN THE STATE AGENCIES EXHIBIT.

THE NAME, PRINCIPAL BUSINESS ADDRESS AND TELEPHONE NUMBER OF EACH FRANCHISE SELLER OFFERING THE FRANCHISE IS: SHERWOOD HAMBLIN, 1251 S. Nelson Drive, Chandler, Arizona 85226, Telephone: 480-967-2200.

Issuance Date: August 1, 2018

See Exhibit K for our registered agents authorized to receive service of process.

On ____________, I received a disclosure document dated August 1, 2018, that included the following Exhibits:

Exhibit A - State Agencies
Exhibit B - State Law Addendum
Exhibit C - Franchise Agreement and Attached Exhibits:
  1 - Terms
  2 - Guaranty
  3 - Confidentiality and Noncompetition Agreement
Exhibit D - Multi-Store Amendment
Exhibit E - Table of Contents of the Manual
Exhibit F - Existing Franchisees
Exhibit G - Former Franchisees
Exhibit H - Existing Dealers
Exhibit I - Former Dealers
Exhibit J - Financial Statements
Exhibit K - Agents for Service of Process
Exhibit L - Receipts for Completed Documents
Exhibit M - Confirmation of Sales Procedures
Exhibit N - Dealer Conversion Amendment
Exhibit O - End-User License Agreement
Exhibit P - Receipts

____
Individually and, if applicable, as an officer, partner, member or manager of, and on behalf of

____

a ______________________________ corporation

a ______________________________ partnership

a ____________________limited liability company

SUBSCRIBED AND SWORN to before me this _______ day of _________________, 20___.

My commission expires:
____

____
Notary Public

PROSPECTIVE FRANCHISOR'S COPY

EXHIBIT P
RECEIPTS

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

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NEW YORK REQUIRES THAT WE GIVE YOU THIS DISCLOSURE DOCUMENT AT THE EARLIER OF THE FIRST PERSONAL MEETING OR 10 BUSINESS DAYS BEFORE THE EXECUTION OF THE FRANCHISE OR OTHER AGREEMENT OR THE PAYMENT OF ANY CONSIDERATION 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 OR OTHER AGREEMENT OF THE PAYMENT OF ANY CONSIDERATION, WHICHEVER OCCURS FIRST.

IF WE DO NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT OR 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 YOUR STATE AGENCY LISTED IN THE STATE AGENCIES EXHIBIT.

THE NAME, PRINCIPAL BUSINESS ADDRESS AND TELEPHONE NUMBER OF EACH FRANCHISE SELLER OFFERING THE FRANCHISE IS: SHERWOOD HAMBLIN, 1251 S. Nelson Drive, Chandler, Arizona 85226, Telephone: 480-967-2200.

Issuance Date: August 1, 2018

See Exhibit K for our registered agents authorized to receive service of process.

On ____________, I received a disclosure document dated August 1, 2018, that included the following Exhibits:

Exhibit A - State Agencies
Exhibit B - State Law Addendum
Exhibit C - Franchise Agreement and Attached Exhibits:
  1 - Terms
  2 - Guaranty
  3 - Confidentiality and Noncompetition Agreement
Exhibit D - Multi-Store Amendment
Exhibit E - Table of Contents of the Manual
Exhibit F - Existing Franchisees
Exhibit G - Former Franchisees
Exhibit H - Existing Dealers
Exhibit I - Former Dealers
Exhibit J - Financial Statements
Exhibit K - Agents for Service of Process
Exhibit L - Receipts for Completed Documents
Exhibit M - Confirmation of Sales Procedures
Exhibit N - Dealer Conversion Amendment
Exhibit O - End-User License Agreement
Exhibit P - Receipts

____
Individually and, if applicable, as an officer, partner, member or manager of, and on behalf of

____

a ______________________________ corporation

a ______________________________ partnership

a ____________________limited liability company

SUBSCRIBED AND SWORN to before me this _______ day of _________________, 200__.

My commission expires: ___________________

____
Notary Public

FRANCHISOR'S COPY