FRANCHISE DISCLOSURE DOCUMENT

CLASSY CLOSETS®

CHRLS Enterprises, Inc., an Arizona Corporation
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Chandler, Arizona 85226
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You will operate a retail Franchise Business under the name Classy Closets® and/or Classy Kitchen & Bath and sell Classy brand manufactured components.

The total initial investment necessary to begin operation of a Classy franchise business ranges from $90,450 to $235,000. This includes $86,000 to $152,500 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: June 1, 2022.

How to Use This Franchise Disclosure Document

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

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

What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

Some States Require Registration

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

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

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/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 more to mediate, arbitrate, or litigate with the franchisor in Arizona than in your own state.
2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.
3. **Net Revenue Performance Required.** You must make minimum royalty, advertising, and other payments, regardless of your Net Revenue levels. Your inability to make payments may result in termination of your franchise and loss of your investment.
4. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.

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

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Section

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 Businesses" or "Classy Business") using Classy Closets® brand manufactured components ("Classy Closets Products") and Classy Kitchen & Bath ("CK&B") brand manufactured components ("CK&B Products").We have never offered franchises in any other lines of business. We also sell our Classy Closet Products and CK&B 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, 1 dealer in Montana, 1 dealer in Arizona, and 2 dealers in Texas. We are not involved in any other business activities. We operate 1 business 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 and CK&B 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 a production facility in Arizona. The CCEI location is similar to the type being franchised. As of the end of its last fiscal year, CCEI had four dealers in four states, selling Classy Closets Products, CK&B 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 property where the Branded Products are manufactured and other non-related commercial real estate. 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 CK&B Products and do not pay any ongoing fees. Classy Closets dealers use the Classy Closets® name in connection with our products that they sell, but generally do not use it in the name of their business. 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 and CK&B Products, 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 days' 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 right to terminate any agreement with a dealer with thirty days' notice in anticipation of a franchise purchase of the same area. 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.

Products Our Franchises Offer

Our franchises have two different franchise business product options that are connected to our Classy® brand:

1. Classy Closets
2. Classy Kitchen & Bath

Each franchise business may design, sell, and install products tied to both businesses. You may also request to operate in more than one territory as a new or existing franchise owner. If you are in good standing and we approve your request, you will sign a current standard form of the Franchise Agreement for the new territory. There is an initial franchise fee for additional franchise territories which we may choose to reduce at our discretion if multiple territories are purchased. See Item 5.

Classy Closets

Our Classy Closets franchises design, sell, and install storage solutions for the home using Classy Closets Products. You may also manufacture Classy Closets Products according to our specifications. This includes custom storage solutions for closets, home offices, entertainment centers, and garages under the mark Classy Closets®. This can include pantry and laundry room cabinetry which a Classy Kitchen & Bath franchise is also permitted to sell and install. As a franchisee, you will provide these products and services to customers within your specified exclusive territory. Your competition will include other local and national businesses offering similar storage organization services.

Classy Kitchen & Bath

Our Classy Kitchen & Bath ("CK&B") franchises design, sell, and install kitchen and bath cabinetry for the home using CK&B Products under the mark Classy Kitchen & Bath®. This can include pantry and laundry room cabinetry which a Classy Closets franchise is also permitted to sell and install. You may manufacture CK&B Products according to our specifications. As a franchisee, you will provide these products and services to customers within your specified exclusive territory. Your competition will include other local and national businesses offering similar storage organization services.

Competition

Your primary competition will be other businesses selling closet and cabinetry organization products, or contractor services. 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 franchisees outside of your territory if that territory has not been purchased by a franchisee. You may not compete against other Classy franchisees in their purchased territories or in their product lines.

Regulations

Your Classy 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 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.

Vice President: Aaron Phillips Standage

Mr. Standage has served as Vice President of CHRLS Enterprises, Inc., since July

2020. Prior to that, from July 2018 to June 2020 he was the General Manager of Montana Operations for Young Electric Sign Company in Helena, Montana. From January 2017 to June 2018 he was an Enterprise Sales Representative for Clearwater Analytics in Boise, Idaho, and from April 2014 to January 2017 he was a Principal of Lone Peak Valuation in Salt Lake City, Utah.

Vice President and Franchise Development Manager: Tyler Webb Standage

Mr. Standage has served as Vice President and Franchise Development Manager of CHRLS Enterprises, Inc., since February 2021. From November 2015 until February 2021 Mr. Standage was Director, Product Development for Visa, Inc. in Foster City, California.

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

Summary of Amounts Paid to Us or Our Affiliates

Type	Single Unit	
	Low	High
Initial Franchise and Development fees	$50,000	$50,000
Equipment (Equipped Installation Trailer)	$0	$27,000
Inventory & Showroom Displays	$10,000	$25,000
Technology Setup Fees	$1,000	$1,000
Design Software License Fee	$2,500	$2,500
Initial Marketing Campaign (First 3 Months)	$22,500	$45,000
Training	$0	$2,000
Total	$86,000	$152,500

Initial Franchise Fee

If you are purchasing a Classy franchise business, you will be required to pay a lump sum initial franchise fee of $50,000.

You must pay us an initial lump sum franchise fee after our pre-opening obligations to you are fulfilled. We will have satisfied our pre-opening obligations after we have designated your Territory, reviewed plans for a showroom, loaned you a copy of Manuals, licensed you to use our software and provided initial training. See Item 11. As we anticipate that we will have satisfied our obligations to you by the end of your initial training, we expect that you will pay us the initial lump-sum franchise fee at the end of the last day of initial training. If for some reason we have not satisfied our obligations to you by the end of training, then you will pay the initial fee as soon as we have satisfied our last pre-opening obligations to you. This fee is not refundable under any circumstances. We use this money for our general operating expenses. If you request and are approved to purchase additional territories adjacent to a currently owned territory, you will receive a 50% discount off the initial franchise fee for each new territory.

Qualified honorably discharged veterans will receive a 20% discount on the initial franchise fee for each franchise unit, regardless of the franchise business.

This fee is not refundable under any circumstances. We use this money for our general operating expenses. The initial fee may be reduced at our sole discretion. Otherwise, initial franchise fees are uniform for all other franchises currently being offered by us.

Technology Setup Fees
As a Classy Franchise, you will be required to purchase proprietary tools to operate your business. In particular, Classy has developed Classy CRM to manage leads, clients, and jobs and Classy CAD (also known as SNaP) to design and order products.

Each franchise business will be required to pay $1,000 as an initial set-up fee for Classy CRM which will help manage client leads, appointment and installation scheduling, and much more.

Classy CAD is a design software that is used as a sales tool to show clients how their products will look when they are installed. Classy franchises are required to pay a $2,500 set up fee for the software. For our proprietary design software, all new franchises will receive up to 3 users upon execution of the agreement. For any additional users, the franchise must pay $100 per user per month for software maintenance. This is the current monthly charge for the software, is paid after opening and may be changed by Classy at its sole discretion.

Initial Training Fees
We provide design, installation, and administrative training for free for up to 10 employees within the first 6 months of operation. Your design manager and installation manager must complete our training program before commencing business. See Item 11 for more detail.

After that initial 6 months, or if employees trained exceeds 10, then we will charge $100 per day per trainee for additional training for our two-week initial training program. We do not expect a new franchise to exceed 10 employee trainings in the first 6 months. As such, we estimate that the amount you will pay us for initial training will range from $0 (if you bring five or fewer people) to $2,000 (if you bring one extra person).

Inventory & Showroom Displays
For Classy showrooms, you will need to purchase material from us or one of our affiliates for showroom displays. For both of those franchise businesses, we anticipate payments to us to range from $10,000 to $25,000 for those displays. Please note that additional expenses will be incurred for these displays to outside vendors for hardware or other accessory items.

Equipment (Equipped Installation Trailer)
Your installation crews must have effective transportation to transport product to a job site. You must also have the tools necessary to complete an installation. You may purchase a mobile workshop and tooling from CCEI, if available. If you do decide to purchase a fully equipped trailer from CCEI and if the materials are available to equip the trailer, the current charge for a fully equipped trailer from CCEI be between $17,000 (open trailer) and $27,000 (enclosed trailer). Or you may use an alternative, but effective, truck and / or trailer to transport product.

See Item 8. All trucks, trailers, and tooling need to be approved by Classy as appropriate to complete Classy Closets and CK&B projects and that follow the branding guidelines of Classy. The total equipment costs paid to us range from $0 (if you already own the required equipment or choose to purchase it from an approved vendor) to $27,000 (if you purchase an outfitted trailer from CCEI).

Grand Opening and First Three Months of Marketing Expenses
For Classy franchises, we require an upfront lump sum payment for our marketing services for the first three months. Our marketing team will use this to work with and pay for advertising materials and campaigns for that time period. Depending on the area, we anticipate that amount to be between $22,500 and $45,000. After the three month period, marketing expenses will be paid monthly with your royalty payment. We also require that you use our marketing services for the first year of operation, but that payment will be made monthly starting in Month 4 and continuing for 9 full months.

All amounts in this Item 5 are not refundable under any circumstances.

ITEM 6
OTHER FEES

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
Royalties FA § 4.2 (Note 3)	You will pay the greater of the Minimum Monthly Royalty or 5% of the Net Revenue from the prior month. The Grand Opening date will be considered the first day of operation.	On or before the 10th day of each month via ACH based on the Net Revenue of the prior month.	Net Revenue means total revenues from all goods and services sold and/or installed for cash or credit, less sales and excise taxes, as well as any amount of coupons, discounts, and refunds given to customers. Net Revenue for a project is recognized in full on the first day of an installation. The Minimum Monthly Royalty Fee is $1,000 in your first 36 months of operations, and $2,500 starting in your 37th month of operation.
Local Advertising FA §§ 4.9 & 10.4.5	Minimum of 5% of Net Revenue of the prior month	Varies if using an outside vendor. Due with Royalty payment each month if using Classy	Paid Locally and/or to Classy for Additional Marketing Services; you must pay Classy for marketing services for the first year of operation, starting in Month 4 and continuing for 9 full months

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
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)
Design Software User Fee FA § 8	First 3 users free, and $100 per additional user per month.	Monthly fee due with Royalty payment on the 10th of each month.	This fee covers the costs of creating and maintaining our proprietary design software. Our other proprietary CRM, scheduling, and ordering software will be provided at no charge. See Items 8 and 11.
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 for our meals and lodging. You will pay for our daily rate and our transportation costs such as gas, car rental and airfare.
Training FA § 11.1.2, 11.2, 11.3	No tuition is charged by us for the first ten or fewer people who attend the initial training program within the first 6 months of operation. After that, the training rate is $100 per person per day.	As incurred	Additional people may also attend the initial training program at the same time or thereafter for $100 per person per day, subject to space availability. See Item 1. (Note 5)
Unapproved Marketing Fee FA § 4.7	Currently estimated to be $500	Upon notice	Imposed if you violate our advertising requirements. The fee amount will be stated in the Manual.

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
Branding Fund Fee FA § 4.5, 11.4.1	Calculated based on the population of the Territory, currently estimated to be not more than $12,000 a year ($1,000 per month)	Monthly, with Royalties	Branding funds are used for multi-location branding campaigns and promotions. These funds can also be used to supplement local advertising expenses if the content is approved by Classy and valuable for multiple locations. Currently this fee is calculated based on the population of the franchise territory but does not exceed $12,000 a year ($1,000 per month).
Social Media Fees FA § 10.4.4	The social media fees are not being charged but are estimated to range from $0 to $500 a month.	1st day of each month	We also reserve the right to own the social media accounts used to promote the franchise. If we exercise this right, we have the right to require you to either pay the provider directly or pay us for the provider fees. We also have the right to manage the social media accounts for you and charge you a fee for our services.
Noncompliance Fee FA § 4.8	Currently estimated to be $500	Upon notice	Imposed if you fail to adhere to our standards.
Restocking Fee FA § 6.1.6	15% fee	Subtracted from the returned merchandise credit	If you receive authorization to return purchased current products that are in new condition, we will provide you with a merchandise credit for the full wholesale price less a 15% restocking fee.
Inspection/ Evaluation Costs FA § 12.3.1	Costs of inventory or equipment or samples retained by us for inspection and evaluation purposes	Upon request	We have the right to request that you provide us, free of charge, with a limited amount of inventory, equipment, branding, or other samples for inspection or evaluation purposes. If reasonably possible, such items will be returned to you. If the items will not be returned to you, you will have a loss from the provided items.
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.

Type of Fee (Note 1)	Amount	Due Date	Remarks (Note 2)
Cost-of-Living Adjustment Fee FA § 5.5	Adjustment to any fixed fee or fixed dollar amount in the Franchise Agreement	Upon 30 days' advance notice	The amount of any fixed fee or fixed dollar amount may be adjusted by us upon notice to you.
Assignment Fee FA § 13.1.7	$2,500	Upon approval of assignment	The amount of the assignment fee is subject to adjustment for cost-of-living and inflation.
Renewal Fee FA § 9.2.3	$2,500	Upon renewal	The amount of the renewal fee shall be based on the terms of the then-current franchise agreement.
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.
Audit Fee FA § 10.9.2	All reasonable costs, expenses and overhead incurred by us	Upon demand	Imposed only if an examination shows that the amount of unreported Net Revenue exceeds 4% of actual Net Revenue If an audit
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.

<u>Notes</u>:

1. "FA" means the Franchise Agreement attached as Exhibit C to this Disclosure Document. The more detailed provisions of your Franchise Agreement 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. Unless otherwise noted, the amount of royalty fees is uniform for all franchisees currently being offered, although certain existing franchisees may have a different royalty fee structure. From the signature date of the Franchise Agreement and for the first full three months after your Grand Opening Date, you will not be charged a Royalty Fee by Classy. You will pay the greater of the Minimum Royalty Fee or the Standard Royalty Fee (currently 5%) of the prior month's Net Revenue, payable for each month on or before the 10th day of the following month. The Minimum Royalty Fee is subject to adjustment for inflation. We may require that you pay royalties by electronic funds transfer.

 Example. *You sign your Franchise Agreement on March 15, 2022. The Grand Opening Date agreed upon is May 18, 2022, which marks your first month of operations. Your Minimum Royalty Fee is $1,000 for the first 36 months until you reach Net Revenue of $20,000 a month. For the first 36 months of operations beginning with May 2022, you will pay us the greater of $1,000 a month or 5% of the prior month's Net Revenue. Your first Royalty Fee will be due on June 10, 2022. Starting in May 2025 (the 37th month), the Royalty Fee will be the greater of $2,500 or 5% of the prior month's Net Revenue.*

4. There are currently no advertising cooperatives operating. We or one of our affiliates, as an operator of Classy businesses or a member of a 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 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.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT – ONE 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)	$50,000	$50,000	Upon our satisfaction of Pre-Opening Obligations	Lump sum	Franchisor
Travel (Note 4)	$50	$1,000	As incurred	Lump sums	Airlines, Gas Companies
Living Expenses While Training (Note 5)	$2,000	$4,000	During training	As incurred	Hotels & Restaurants
Real Estate (Note 6)	$2,000	$15,000	Usually monthly	Lump sums	Landlord or Seller
Leasehold Improvements (Note 7)	$0	$20,000	During and upon completion of construction	Lump sums	Contractors
Signage (Note 8)	$2,500	$25,000	As incurred	As arranged	Vendors
Installation Equipment (Note 9)	$2,500	$27,000	As incurred	Lump sums	Vendors and/or CCEI
Sales and Administrative Equipment (Note 9)	$1,500	$6,000	As incurred	As arranged	Vendors
Technology License Fee	$1,000	$1,000	Upon Signature	Lump sums	Franchisor

YOUR ESTIMATED INITIAL INVESTMENT – ONE BUSINESS (Note 1)					
Type of Expenditure	**Amount**		**When Payable**	**Method of Payment (Note 2)**	**To Whom Payment is to be Made**
Design Software License Fee	$2,500	$2,500	Upon Signature	Lump sums	Franchisor
Inventory (Note 10)	$500	$8,000	As incurred	Lump sums	Vendors and/or CCEI
Supplies (Note 11)	$250	$1,000	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)	$22,500	$45,000	As incurred	Lump sums	Franchisor
ADDITIONAL OPERATING FUNDS FOR 3 MONTHS (Note 17)	$2,000	$20,000	As incurred	As arranged	Vendors and/or Franchisor
TOTALS (Note 18)	$90,450	$235,000			

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. No fees are refundable.

2. Financing may be available from an independent source for the establishment and operation of your Classy Business location. See Item 10. We may, at our sole discretion, choose to offer direct or indirect financing on your initial investment. 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. 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. If we agree that you will open a Classy Business in more than one territory, you will incur additional initial fees.

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.

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. Typical locations are part of existing office and business centers. The location, layout, appearance, signage and product displays of the showroom are subject to our prior approval. A Classy 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 estimates that rent may range from $24,000 to $180,000 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. The low estimate 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. The estimates include the costs of interior and exterior Classy signage and the costs of installation. See Item 8.

9. You must have a computer system. This estimate includes approximately $1,500 to $5,500 for computer hardware with 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 may purchase an outfitted trailer from CCEI and you may elect to purchase certain available equipment from our affiliate. 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 or CK&B Products from CCEI or manufacturer Classy Closets Products or CK&B 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 includes deposits for water, electricity, gas, telephone and other utilities. 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 Business and complying with legal requirements.

15. Standard business licenses have been assumed for this estimate.

16. The advertising estimate includes grand opening advertising and the first three months of marketing services of $2,500 to $45,000. 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 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. This high estimate includes 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

Required Purchases from Classy and CCEI

You may purchase a mobile workshop from CCEI. The mobile workshop is currently a trailer with equipment needed to service customers. Depending on your location, you may purchase your own trailer and/or vehicle that would be best suited for the weather conditions in your area. Certain products required for a Classy Closets or CK&B 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 or CK&B 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.

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 or CK&B 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 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 required to have a Classy Closets or CK&B showroom in your territory, 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. 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 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 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 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. 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 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 alternative vendor. 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. 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. If we have written and pre-established criteria or specifications for alternative vendors it will be made available to you. Our criteria for approving alternative vendors are otherwise not available to you. 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 and notification to you are normally completed within 21 days. We reserve the right to revoke our authorization upon 30 days written notice to you.

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	$1,465,090	$22,470,432	6.68%
CHRLS Enterprises, Inc. ("Classy")	None	$0	$1,417,003	0%

Notes:

1. Based on the unaudited financial statements of Classy Closets Etc. Inc. as of December 31, 2021 and CHRLS Enterprises, Inc.'s audited financial statements as of December 31, 2021.

2. Classy Closets Etc., Inc. did not have any revenues for any purchases or lease of goods or services from its franchisees as of December 31, 2021.

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 and CK&B 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.

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 (See Note 1)	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; DRA § 2.3.2(c); DCA § G	Items 6, 7, 11
e. Opening	FA § 1.3; DRA § 2.1; DCA § D	Items 11, 12

Obligation	Section in Agreement (See Note 1)	Item in Disclosure Document
f. Fees	FA §§ 4.1, 4.2, 4.5, 4.6, 4.7, 4.8, 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, DRA § 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
k. Territorial development and sales quotas	FA §§ 2.3.2, 9.2.4, 10.4, 12.6.1; Ex. 1; DRA § 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, 4.9, 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

Notes:

1. FA: The Franchise Agreement that is attached as Exhibit C to this Disclosure Document and its Exhibits.

ITEM 10
FINANCING

We may, at our sole discretion, choose to offer direct or indirect financing on your initial investment. 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.

Our Obligations Before Opening

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

- Designate the territory within which you may install Classy 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 nine other employees at no charge within the first six months (may be waived if you are purchasing an additional franchise for a new territory), in Maricopa County, Arizona, or another mutually acceptable location. (Franchise Agreement § 11.1.) 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 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 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.

Advertising

We have the right to establish a Branding Fund in which you must contribute up to 4% of your Net Revenue to the Branding Fund. Currently this fee is calculated based on the population of the franchise territory but does not exceed $12,000 per year ($1,000 per month). Company-owned stores may but are not obligated to contribute to the Branding Fund. Certain franchisees have different versions of a franchise agreement and may be required to pay a lesser amount or may not pay any fee. 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. The population-based Branding Fund Fee will begin in January 2022.

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. The members of the cooperative will administer the cooperative. 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 Businesses operated by us or our affiliates) having one vote. You will be obligated to contribute to the costs of the programs, and the general expenses of the cooperative, as determined and allocated by a majority vote of the members. If we do not operate a Classy 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, TikTok, SnapChat, 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. We reserve the right to own and operate the social media accounts as well and we will give you prior written notice if we exercise this right. (Franchise Agreement § 10.4.4).

You should spend a minimum of five percent (5%) of the Franchisee' Net Revenue for each month on Local Advertising. Classy may require a minimum Local Advertising spend of 5% or higher if Franchisee is not able to meet the Minimum Monthly Net Revenue Requirements. You are encouraged to not advertise in other franchisee's territories but your advertising is not limited to your territory. You will provide us with reports on your local advertising on either a monthly or quarterly basis. (Franchise Agreement 10.4.5)

Computer System and Software

Hardware and Operating System. We recommend that you have or obtain a personal computer system for your business. The system must use a Microsoft Windows platform, have an internet connection and a printer. The minimum and recommended specifications for your computer system, including to ensure that Classy's proprietary our design software functions optimally, are found in the most recent edition of the Operating Manual.

Software. We will license you to use our proprietary computer software at the costs described below. (Franchise Agreement § 8.)

Software Type	Optional or Required	Access	Current Costs	Payable to
Ordering & Scheduling	Required	Web-based and/or Server-based	$1,000	CHRLS Enterprises, Inc.
Proprietary Design Software	Required	Hosted on a server	$2,500 initial fee, with $100 monthly per user fee after first three users	CHRLS Enterprises, Inc.

The estimated cost to purchase your computer system ranges from $1,500 to $6,000.

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 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 Business. In preparation of your grand opening, 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. 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 or CK&B 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 Business within three months of executing the Franchise Agreement, we will have the right to terminate your Franchise Agreement without refunding your initial fee. (Franchise Agreement §§ 1.3 and 14.2.1B.)

We may require, not more than once every three years, that you upgrade your vehicle(s), signage, equipment, and/or furniture and fixtures for any showroom that you may have, to conform to the then current standards and image required of then new Classy Closets or CK&B showrooms; provided, however, that the total cost of such upgrades shall not exceed $10,000. (Franchise Agreement § 12.3.2.)

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
Sales, Design, and Design Software	40		Classy's office and/or Virtual
Installation		40	Classy's office & customer locations
Marketing	2		Classy's office and/or Virtual

CRM	4		Classy's office and/or Virtual
Inventory and Purchasing	2		Classy's office and/or Virtual
General Operations: Administration, Customer Relations, Safety, Strategy	2		Classy's office and/or Virtual
TOTAL HOURS	**50**	**40**	

The classroom training will be conducted at Classy's office located in Chandler, Arizona and through virtual meetings. 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 currently Sarah Hightower, Austin Christiansen, Jessica LeSueur, Tyler Standage, Brock Mortenson, and Sean Wilson. 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 nine other people at no charge. Your design manager and installation manager must each attend the initial training. No tuition is charged for the first 10 or fewer people who attend the initial training program within the first six months of operation. For any additional person trained at the same time or in the future we may charge you a $100 per person per day fee. See Item 6. (Franchise Agreement §§ 11.1 and 11.2.)

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 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, counties, or zip codes, 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 you are not meeting your Minimum Monthly Net Revenue requirements as shown in

ITEM 12. We may operate or license Classy Closets or CK&B businesses anywhere outside of your territory. The location and appearance of your Classy Closets and CK&B showroom(s) are subject to our prior approval which will not be unreasonably withheld. We are not required to pay you if we exercise any of the rights specified above inside your territory.

You may solicit customers and install Classy Closet Products or CK&B products outside of your territory with our prior consent if that territory has not been purchased by another franchise. However, you will not receive exclusive rights to sell outside of your purchased territory and we may revoke this consent at any time. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

If you do not possess the qualifications for a particular project, such as a large commercial project, we reserve the right to sell and install (or authorize another qualified franchise to sell and install) Classy Closets Products or CK&B Products in your territory for that given project. Qualifications may include having appropriate licenses, insurance levels, experience and expertise, staffing needs and time frame for completion. We will notify you of the project, inform you of the qualifications and provide you with fifteen days to respond and prove whether or not you meet the qualifications. If you do not meet the qualifications, then you will not be able to work on the project and you will not receive any revenue from the project.

Minimum Monthly Net Revenue

We will calculate a minimum monthly Net Revenue amount by multiplying the identified population in your territory when you sign your Franchise Agreement times a certain cent amount ("Minimum Monthly Net Revenue") based on the number of years you have been operating according to the chart below. This minimum monthly Net Revenue 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 Net Revenue amount. We will provide you with an estimate of the minimum monthly Net Revenue before you sign the franchise agreement and state the minimum monthly Net Revenue in an exhibit to your Franchise Agreement.

Number of Years	Cents
1	n/a
2-4	$ 0.030
5-7	$ 0.050
8-10	$ 0.065

Number of Years	Cents
10+ (Renewing)	As stated in the then current franchise agreement offered at the time

***Example – Minimum Monthly Net Revenue**. Your territory has a population of approximately 1,000,000 according to the 2020 Census when you sign your Franchise Agreement on March 15, 2021. Your first month for this calculation begins April 1, 2021. For the 1st year ending March 31, 2022, you do not have any Minimum Monthly Net Revenue requirements. During your 2nd, 3rd, and 4th years, from April 1, 2022 to March 31, 2025, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 3 cents which equals $30,000 (1,000,000 x .03 = $30,000). During your 5th, 6th, and 7th years, from April 1, 2025 to March 31, 2028, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 5 cents which equals $50,000 (1,000,000 x .05 = $50,000). During your 8th, 9th, and 10th years, from April 1, 2028 to August 31, 2031, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 6.5 cents which equals $65,000 (1,000,000 x .065 = $65,000). For a renewing Metro Franchise, the Minimum Monthly Net Revenue will be calculated by multiplying the territory population based on the then most recent census data by 8.3 cents. (The above example assumes no adjustment for inflation.)*

<u>Average Monthly Net Revenue in Your Territory</u>

We will also calculate your average monthly Net Revenue for a rolling three-month period ("Average Monthly Net Revenue"). If for any prior "rolling" 3 month period, Franchisee's average monthly Net Revenue ("Average Monthly Net Revenue") are less than the Minimum Monthly Net Revenue amount as calculated above, then Classy may, at its option, authorize a sales review with the Franchisee. Factors in this sales review include, but are not limited to:

A. the current state of the local, national, and/or global economy;

B. the current state of sales for Classy Closets as a whole, to help determine if this Franchisee's struggles are unique, or is this a problem facing other Franchisees or corporate locations;

C. whether the Franchisee's business has been affected by force majeure-type events such as pandemic or natural disaster; and

D. whether the Franchisee has acted prudently, and in a responsible business manner, to try and mitigate the harm to its business by these outside factors.

If the Franchisee can make a reasonable showing that it is doing its best to maintain sales under extraordinary circumstances, Classy shall take no action penalizing the Franchisee. However, if the Franchisee has not made good faith efforts to maintain its Average Monthly Net Revenue at the amount calculated above, then Classy, shall give the Franchisee a 90-day notice and opportunity to increase its Net Revenue to meet the Minimum Monthly Net Revenue requirement. If the Franchisee does meet the minimum requirement after 90 days, Classy may, at it's option, either (a) sell, or authorize another franchisee or affiliate to sell, Classy Products in your territory or (b) elect to reduce your territory to a minimum population that is the same percentage of Average Monthly Net Revenue to Minimum Monthly Net Revenue. We may continue to allow that franchisee to conduct business in your territory or do so ourselves even if you later increase your Net Revenue above your Minimum Monthly Net Revenue 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 Net Revenue vs. Minimum Monthly Net Revenue****. Assuming the same dates and population size as in the above example, if your Net Revenue for the month ended June 2025 are $55,000, for July 2025 are $52,000 and for August 2025 are $48,000, then your Average Monthly Net Revenue for September 2025 is $51,667 ($55,000 + $52,000 + $48,000 = $155,000 ÷ 3 = $51,667). This amount is compared to your Minimum Monthly Net Revenue requirement for September 2021 which is $50,000. In this calculation, you have met the minimum monthly Net Revenue requirement because your Average Monthly Net Revenue of $51,667 is greater than your Minimum Monthly Net Revenue requirement of $50,000.*
>
> *If Franchise's Net Revenue for the month ended June 2025 are $35,000, for July 2025 are $22,000 and for August 2025 are $28,000, then the Average Monthly Net Revenue for September 2025 is $28,333 ($35,000 + $22,000 + $28,000 = 85,000 ÷ 3 = $28,333). Franchisee's Average Monthly Net Revenue of $28,333 are less than Franchisee's Minimum Monthly Net Revenue requirement of $50,000 and Franchisee has not met its requirements. Classy may give notice to Franchisee that Franchisee has 90 days to increase Franchisee's Net Revenue during that 90-day period or Classy may permit another franchisee, an affiliate or itself to conduct business in the Territory. If Net Revenue are not increased during the 90-day period, Classy may also reduce the Territory to a minimum population that is 56.67% (calculated as 28,333/50,000) of the current population in the Territory.*

Solicitation of Customers

You may install Classy Closets Products and CK&B 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 or CK&B 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 or CK&B Products in homes or offices located in your territory. One exception to this, as noted above, will be if you are not qualified to perform a particular project.

Other Channels of Distribution

We may sell Classy Closets Products or CK&B 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 or CK&B Products as well as operates Classy businesses. You have no right to a license from us or our affiliates for this manufacturing business although you may manufacture Classy Closets Products or CK&B Products in accordance to the specifications in our Manual that are to be used in your Classy 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.

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").

All rights and goodwill 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 website or advertise on the Internet, Facebook, blog, Twitter or other 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 you to 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	3,515,939	10/14/2008 Renewed Until 10/13/2028
Life. Organized. (word mark)	3,155,711	10/17/2006 Renewed Until 10/16/2026

Affidavits of use and incontestability have been filed for the trademarks at registration no. 1,993,137, registration no. 3,515,939, and registration no. 3,155,711 and the marks are now incontestable. Registration No. 1,993,137, registration no. 3,515,939, and registration no. 3,155,711 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.

We also have common law rights to the following design mark.

CLASSY KITCHEN & BATH®

We do not have a federal registration for this design mark which will be the principal trademark for the CK&B Products. Therefore, our trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

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 our 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.

However, you shall not be required to implement any change (other than those described above or as may be on branded mandatory Classy Closet styles, models and/or sizes) which would materially and adversely affect your rights or materially increase your financial obligations under the Franchise Agreement unless you have agreed in writing to implement such a change.

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 or CK&B 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 or CK&B Products. If you are part of a photograph or video that we take at the location or at one of our events, we may use that footage 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 software, wholesale prices, vendor, and pricing information and manufacturer information, in the conduct of your Classy Business. See Items 8 and 11. You must protect the confidentiality of these materials and 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 best efforts to the direct, day-to-day full time supervision of your Classy 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®" and "Classy Kitchen & Bath." You may use only the Classy trademarks and offer only Classy Closets Products or CK&B 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 or CK&B 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 or CK&B Products outside of your territory unless you obtain our prior written consent. If you choose to manufacture Classy Closets Products or CK&B 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.

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 or CK&B 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 or CK&B 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 or CK&B Products and installation services. Normal wear and tear is not included. The warranty is void if the Classy Closets Products or CK&B 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 pay a renewal fee, be in good standing, give 6-9 months' notice, upgrade your location and sign a general release (which is subject to state law) 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 and you will pay a renewal fee.
d. Termination by franchisee	Not Applicable	The Franchise Agreement does not provide for this. You may, however, seek to terminate on any grounds available to you at law.
e. Termination by franchisor without cause	Not Applicable	Not Applicable

Provision	Section in franchise ("FA") or other Agreement	Summary
f. Termination by franchisor with cause	FA § 14.2;	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; immediately upon written notice if a material default cannot be cured and immediately upon notice of intended closure or breach. If we terminate your Franchise Agreement then we may also terminate your Development Rights Amendment.
g. "Cause" defined – curable defaults	FA § 14.2.1;	Subject to state law: non-payment; failure to open on time, failure to meet minimum Net Revenue, misuse of confidential information or our trademarks; and breaches of other material obligations.
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, perform upgrading to current standards, assume your Net Revenue 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 (which is subject to state law) (also seen below).
n. Franchisor's right of first refusal to acquire	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.

Provision	Section in franchise ("FA") or other Agreement	Summary
franchisee's business		
o. Franchisor's option to purchase franchisee's business	FA § 14.4.4	Upon expiration or termination of your franchise, we may 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).
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 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 Classybusiness located in your Territory, within a radius from your Classy 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 representations or promises outside of the Franchise Agreement or this Disclosure Document and other agreements may not be enforceable.
u. Dispute resolution by arbitration or mediation	FA §§ 15.4, 15.5	Mandatory binding arbitration except for injunctive relief; non-binding mediation on issues not related to our trademarks or confidential information (subject to applicable state law, see Exhibit B).
v. Choice of forum	FA §§ 15.3, 15.1.2	Arbitration must be held in Maricopa County, Arizona; we may seek injunctive relief anywhere (subject to applicable state law, see Exhibit B).
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.

2021

The following chart sets forth the average, high and low dollar amounts of actual yearly and monthly Net Revenue for the twelve-month period that ended on December 31, 2021.

Franchised Yearly Net Revenue 2021					
Number of Locations	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
13	$ 1,612,041	$ 1,417,360	5 (38%)	$ 4,873,090	$ 230,484

Affiliate Owned Yearly Gross Retail Net Revenue 2021					
Affiliated Location	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
1 Location	$21,005,342	$21,005,342	1 (100%)	$21,005,342	$21,005,342

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Franchised Monthly Net Revenue 2021					
Number of Locations	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
13	$134,337	$118,113	5 (38%)	$491,253	$7,700

Affiliate Owned Monthly Net Revenue 2021					
Affiliated Location	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
1 Location	$1,750,445	$1,771,238	1 (100%)	$2,150,979	$1,451,523

2020

The following chart sets forth the average, high and low dollar amounts of actual yearly and monthly Net Revenue for the twelve month period that ended on December 31, 2020.

Franchised Yearly Net Revenue 2020					
Number of Locations	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
12	$1,230,773	$979,047	5 (42%)	$3,465,098	$205,388

Affiliate Owned Yearly Gross Retail Net Revenue 2020					
Affiliated Location	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
1 Location	$18,277,813	$18,277,813	1 (100%)	$18,277,813	$18,277,813

Franchised Monthly Net Revenue 2020					
Number of Locations	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
12	$102,564	$89,262	5 (42%)	$339,670	$279

Affiliate Owned Monthly Net Revenue 2020					
Affiliated Location	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
1 Location	$1,523,151	$1,492,442	1 (100%)	$1,951,694	$1,356,806

2019

The following chart sets forth the average, high and low dollar amounts of actual yearly and monthly Net Revenue for the twelve month period that ended on December 31, 2019.

Franchised Yearly Net Revenue 2019					
Number of Locations	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
11	$1,190,069	$1,189,373	5 (45%)	$3,270,966	$195,740

Affiliate Owned Yearly Gross Retail Net Revenue 2019					
Affiliated Location	Mean (Average) Yearly Net Revenue (Note 1)	Median Yearly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Yearly Net Revenue Out of Total Locations	High Yearly Net Revenue	Low Yearly Net Revenue
1 Location	$17,735,360	$17,735,360	1 (100%)	$17,735,360	$17,735,360

Franchised Monthly Net Revenue 2019					
Locations	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
11	$99,172	$99,114	5 (45%)	$344,447	$3,710

Affiliate Owned Monthly Net Revenue 2019					
Affiliated Location	Mean (Average) Monthly Net Revenue (Note 1)	Median Monthly Net Revenue (Note 1)	# and (%) of Locations Meeting Average Monthly Net Revenue Out of Total Locations	High Monthly Net Revenue	Low Monthly Net Revenue
1 Location	$1,477,947	$1,470,122	1 (100%)	$1,760,981	$1,236,842

Basis

For 2021, we have included information for 13 locations out of 15 locations that were operating, excluding two locations that were not actively operating. For 2020, we have included information for 12 locations out of 14 locations that were operating, excluding two locations that were not actively operating. For 2019, we have included information for 11 locations out of 14 total operating locations as of December 31, 2019, excluding one location that opened in late 2019 and two other locations that were not actively operating on a full-time basis. The locations in the 2021, 2020 and 2019 charts that are not actively operating are long-time franchisees who are entering retirement and not operating the business full-time. One franchise has more than one location in their one territory and reports only the total Net Revenue to us. We have equally allocated that Net Revenue 50-50 between the locations. We have also included information from 1 affiliated location. There is a total of one affiliated location operating as of December 31, 2019, 2020 and 2021. In reporting the Net Revenue of the affiliate we have only reported retail Net Revenue and have not reported any sales of products to franchisees. All franchisees and the affiliate offer substantially the same products and services as will be offered by your Classy Business. We have not included any information from the 5 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 Business. Franchisees or former franchisees, listed in the Disclosure Document may be one source of this information.

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

Material Assumptions

The above locations reported Net Revenue 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 Net Revenue 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 a 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 2019 to 2021 (Note 1)

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	13	14	+1
	2020	14	14	0
	2021	14	15	+1
Company-Owned	2019	2	2	0
	2020	2	2	0
	2021	2	2	0
Total Outlets	2019	15	16	+1
	2020	16	16	0
	2021	16	17	+1

Note:

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

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2019 to 2021 (Note 1)

State	Year	Number of Transfers
Arizona	2019	0
	2020	0
	2021	0
California	2019	0
	2020	0

State	Year	Number of Transfers
	2021	0
Colorado	2019	0
	2020	0
	2021	0
Connecticut	2019	0
	2020	0
	2021	0
District of Columbia	2019	0
	2020	0
	2021	0
Florida	2019	0
	2020	0
	2021	0
Georgia	2019	0
	2020	0
	2021	0
Idaho	2019	0
	2020	0
	2021	0
Illinois	2019	0
	2020	0
	2021	0
Kansas	2019	0
	2020	0
	2021	0
Massachusetts	2019	0

State	Year	Number of Transfers
	2020	0
	2021	0
Montana	2019	0
	2020	0
	2021	0
Nevada	2019	0
	2020	0
	2021	0
New York	2019	0
	2020	0
	2021	0
Texas	2019	0
	2020	0
	2021	0
Utah	2019	0
	2020	0
	2021	0
Washington	2019	0
	2020	0
	2021	0
Wyoming	2019	0
	2020	0
	2021	0
Totals	2019	0
	2020	0
	2021	0

Note:

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

Table No. 3

Status of Franchised Outlets
For years 2019 to 2021 (Notes 1)

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Arizona	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	1	0	0	0	0	2
California	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Colorado	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Kansas	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Nevada	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
New Mexico	2019	0	1	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Texas	2019	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Utah	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Totals (Note 2)	2019	13	1	0	0	0	0	14
	2020	14	0	0	0	0	0	14
	2021	14	1	0	0	0	0	15

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 2019 to 2021

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	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
	2021	2	0	0	0	0	2
Totals (Note 1)	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
	2021	2	0	0	0	0	2

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 had 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, 2022

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
TX	0	1	1
UT	0	1	0
Totals	0	2	1

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, 2021, December 31, 2020 and December 31, 2019 and the unaudited financial statements as of October 31, 2022.

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 Franchise Agreement and its Exhibits:
- 1 - Terms
- 2 - Guaranty
- 3 - Confidentiality and Noncompetition Agreement
- 4 - Addendums Required by Certain States

Exhibit D - Reserved
Exhibit L - Acknowledgement of Completed Documents
Exhibit M - Confirmation of Net Revenue Procedures
Exhibit N - 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	Department of Financial Protection and Innovation 320 W. 4th Street, Suite 750 Los Angeles, California 90013-2344 213/576-7500 Toll Free 1- 866/275-2677 2101 Arena Boulevard Sacramento, California 95834 916/445-7205 Toll Free 1- 866/275-2677 1455 Frazee Road, Suite 315 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 Securities-Franchise Registration 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198 651/539-1500
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	NYS Department of Law Investor Protection Bureau 28 Liberty St. 21st Floor New York, New York 10005 212/416-8236
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 Department of Business Regulation 1511 Pontiac Avenue - Building 68-2 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 Division of Securities State of Wisconsin Department of Financial Institutions 4822 Madison Yards Way Madison, Wisconsin 53705 608/266-0448

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 in Maricopa County, Arizona, 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).

Financial Performance Representations

j. The financial performance representation 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 FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

Food Service Regulations

l. 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.

Interest Rate

m. The maximum interest rate allowed the State of California is 10%.

Fee Deferral

n. The Department has determined that we, the franchisor, have not demonstrated we are adequately capitalized and/or that we must rely on franchise fees to fund our operations. The Commissioner has imposed a fee deferral condition, which requires that we defer the collection of all initial fees from California franchisees until we have completed all of our pre-opening obligations and you are open for business. For California franchisees who sign a development agreement, the payment of the development and initial fees attributable to a specific unit in your development schedule is deferred until that unit is open.

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 FRANCHISING

CLASSY FRANCHISE AGREEMENT

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INDEX OF DEFINED TERMS

This Classy Franchise Agreement (the "**Agreement**") is made as of this _____ day of _________________, 20__ ("**Effective Date**") 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 storage solutions for the home using Classy brand manufactured components. Classy has the exclusive right to grant franchises for the operation of franchised Classy businesses that design and install custom storage solutions for closets, home offices, entertainment centers, garages, pantry, kitchens, bathrooms, and laundry room cabinetry, at retail, using Classy Closets brand manufactured components ("Classy Closets Product(s)") and Classy Kitchen & Bath brand manufactured components "(CK&B Product(s)"). Franchisees may also manufacture Classy Closets Products or CK&B Products to Classy's specifications. Franchisee has applied to Classy for a franchise to operate a single retail Classy 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 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. In certain instances, Franchisee may request and be approved to operate both a Classy Closets Product business and a CK&B Product business. In such a case, Franchisee will follow Classy's branding and operational guidance to advertise and operate those businesses.

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 the Classy Closets Products and/or CK&B Products within the area described in Paragraph 2.1 of Exhibit 1 (the "**Territory**"). Franchisee may install the Classy Closets Products or CK&B 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 or CK&B Products in homes or offices located in the Territory, and Classy will use reasonable efforts to prevent other franchisees from installing Classy Closets Products or CK&B Products in homes or offices located in the Territory. Classy may operate or license Classy 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 <u>Classy's Reserved Rights</u>.

2.3.1 **<u>Contracts for Multiple Locations</u>.** Classy may, within or outside of the Territory, provide Classy Closets Products or CK&B 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; *<u>provided, however</u>,* 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 **<u>Other Channels of Distribution</u>.** Classy may, within or outside of the Territory, sell Classy Closets Products or CK&B Products through other channels of distribution such as catalogs and internet sales.

2.3.3 **<u>Minimum Monthly Net Revenue</u>**. Classy will calculate a Minimum Monthly Net Revenue amount by multiplying the Population times a certain cent amount ("**Minimum Monthly Net Revenue**"). The amount of the Minimum Monthly Net Revenue requirement set forth in Paragraph 2.3.3 of Exhibit 1 is subject to adjustment for inflation as provided in Section 5.5. The definition of Net Revenue is stated in Section 4.3 of this Agreement. The cents used in the calculation will be determined by the number of years that Franchisee has been a Franchisee. The number of years is 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 Net Revenue
	1	n/a	N/A
	2-4	$ 0.030	$___
	5-7	$ 0.050	$___
	8-10	$ 0.065	$___
	Renewing	As stated in Exhibit 1	$___

***Example – Minimum Monthly Net Revenue**. Your territory has a population of approximately 1,000,000 according to the 2020 Census when you sign your Franchise Agreement on March 15, 2021. Your first month for this calculation begins April 1, 2021. For the 1st year ending March 31, 2022, you do not have any Minimum Monthly Net Revenue requirements. During your 2nd, 3rd, and 4th years, from April 1, 2022, to March 31, 2025, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 3 cents which equals $30,000 (1,000,000 x .03 = $30,000). During your 5th, 6th, and 7th years, from April 1, 2025, to March 31, 2028, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 5 cents which equals $50,000 (1,000,000 x .05 = $50,000). During your 8th, 9th, and 10th years, from April 1, 2028, to August 31, 2031, your Minimum Monthly Net Revenue will be calculated as 1,000,000 population times 6.5 cents which equals $65,000 (1,000,000 x .065 = $65,000).*

For a renewing Franchise, the Minimum Monthly Net Revenue will be calculated by multiplying the territory population based on the then most recent census data by 8.3 cents. (The above example assumes no adjustment for inflation.)

2.3.4 <u>Average Monthly Net Revenue</u>. If for any prior "rolling" 3 month period, Franchisee's average monthly Net Revenue ("**Average Monthly Net Revenue")** are less than the Minimum Monthly Net Revenue amount as calculated above, then Classy may, at its option, authorize a sales review with the Franchisee. Factors in this sales review include, but are not limited to:

A. the current state of the local, national, and/or global economy;

B. the current state of sales for Classy Closets as a whole, to help determine if this Franchisee's struggles are unique, or is this a problem facing other Franchisees or corporate locations;

C. whether the Franchisee's business has been affected by force majeure-type events such as pandemic or natural disaster; and

D. whether the Franchisee has acted prudently, and in a responsible business manner, to try and mitigate the harm to its business by these and other identified outside factors.

If the Franchisee can make a reasonable showing that it is doing its best to maintain sales under extraordinary circumstances, Classy shall take no further action under this Section for at least sixty (60) days after its review but may immediately impose additional Local Advertising spending under Section 10.4.5. However, if the Franchisee has not made good faith efforts to maintain its Average Monthly Net Revenue at the amount calculated above, then Classy, shall give the Franchisee a 90-day notice and opportunity to increase its Net Revenue to meet the Minimum Monthly Net Revenue requirement. If the Franchisee does meet the minimum requirement after 90 days, Classy may, at it's option, either (a) authorize another Classy franchisee or an affiliate to sell Classy Closets Products or CK&B Products and provide installation services within the Territory or do so itself; or (b) permanently reduce the Territory *<u>provided, however</u>,* that Classy must give Franchisee at least 90 days advance notice and opportunity to increase his Net Revenue to meet the Minimum Monthly Net Revenue 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 Net Revenue above the Minimum Monthly Net Revenue 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 Net Revenue to Minimum Monthly Net Revenue. 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 Net Revenue vs. Minimum Monthly Net Revenue**. Assuming the same dates and population size as in the above example, if your Net Revenue for the month ended June 2025 are $55,000, for July 2025 are $52,000 and for August 2025 are $48,000, then your Average Monthly Net Revenue for September 2025 is $51,667 ($55,000 + $52,000 + $48,000 =*

$155,000 ÷ 3 = $51,667). This amount is compared to your Minimum Monthly Net Revenue requirement for September 2021 which is $50,000. In this calculation, you have met the Minimum Monthly Net Revenue requirement because your Average Monthly Net Revenue of $51,667 is greater than your Minimum Monthly Net Revenue requirement of $50,000.

If Franchisee's Net Revenue for the month ended June 2025 are $35,000, for July 2025 are $22,000 and for August 2025 are $28,000, then the Average Monthly Net Revenue for September 2025 is $28,333 ($35,000 + $22,000 + $28,000 = 85,000 ÷ 3 = $28,333). Franchisee's Average Monthly Net Revenue of $28,333 are less than Franchisee's Minimum Monthly Net Revenue requirement of $50,000 and Franchisee has not met its requirements. Classy may give notice to Franchisee that Franchisee has 90 days to increase Franchisee's Net Revenue 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 56.67% (calculated as 28,333/50,000) of the current population in the Territory.

2.3.5 Qualifications. If neither Franchisee nor its owners or officers possess the qualifications for a particular project, Classy reserves the right to sell and install (or authorize another qualified franchise to sell and install) Classy Closets Products or CK&B Products in the Territory for that given project. Qualifications may include having appropriate licenses, insurance levels, experience and expertise, staffing needs or time frame for competition. Classy will notify Franchisee of the qualifications and provide Franchisee with at least fifteen (15) days to respond, confirm whether or not Franchisee meets the qualifications at the time of notification and to provide supporting details and proof to Classy. Classy will review any materials submitted and notify Franchisee within fifteen (15) days whether or not additional materials are needed and if Franchisee meets the qualifications for the project. If Franchisee does not meet the qualifications for the project and Classy sells and installs (or authorizes another qualified franchisee to sell and install), Franchisee will not receive any revenue from the project. Classy may also decline to accept any offer from Franchisee to delay the project until Franchisee becomes qualified if Franchisee is unable to prove its existing qualifications.

3. VEHICLE, TOOLS AND SHOWROOM STORE.

3.1 Vehicles and Equipped Installation Trailer. Franchisee's 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 Business, equipped with signs bearing the Mark. Further, installation crews must have effective transportation to transport product to the job sites with the tools necessary for installation. If Classy determines, in its sole discretion, that the vehicle, truck and/or trailer does not project a favorable image of a Classy 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. In certain circumstances, an installation trailer may be available for separate purchase from Classy.

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 required to have a Classy showroom store ("**Showroom**"). Classy may review plans for any showroom store to be established by a franchisee, including the location, layout, appearance, signage and product displays for the Showroom. Classy may provide Franchisee with guidelines, specifications or assistance in connection with obtaining such a Showroom. Franchisee must establish one or more Showrooms in the Territory. If at any time Franchisee 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. Further, Franchisee will need to purchase additional materials from Franchisor or one of their affiliates for showroom displays.

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. Franchisee shall pay Classy the "**Franchise Fee**" specified in Section 4.1 of Exhibit 1 as soon as Franchisor has fulfilled all of its pre-opening obligations to Franchisee. For example, if Franchisor has satisfied its pre-opening obligations to Franchisee by the end of the initial training, Franchisee is expected to pay the Franchise Fee at the end of the last day of initial training. As further described in this Agreement, Franchisor's pre-opening obligations are to designate the Territory, review plans for a showroom, loan Franchisee a copy of the Manual, license Franchisee to use Franchisor's software and provide initial training as you will be "open for business" at that time. 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. Franchisee shall pay Classy a monthly, nonrefundable royalty fee equal to the greater of (a) 5% of Franchisee's Net Revenue from the prior month ("**Standard Royalty Fee**") or (b) the fixed nonrefundable monthly royalty fee ("**Minimum Royalty Fee**") of $1,000 for the first 36 months and $2,500 starting in the 37th month and thereafter, payable and due for each month on the 10th day of the following month. Collectively, the Minimum Royalty Fee and the Standard Royalty Fee may be referred to as ("**Royalty Fees**"). For a new Franchisee, Royalty Fees will begin incurring in the month of the first day of operation (**"Grand Opening Date"**) which will be determined on the date the agreement is signed and will be no later than 3 months after the date the agreement is signed (as specified in Section 4.2 of Exhibit 1). The month in which the Grand Opening Date falls will be considered the first month that the Minimum Royalty Fee will be applied, regardless of the day in the month that the store actually opens.

> ***Example.*** *You sign your Franchise Agreement on March 15, 2022. The Grand Opening Date agreed upon is May 18, 2022, which marks your first month of operations. Your Minimum Royalty Fee is $1,000 for the first 36 months until you reach Net Revenue of $20,000 a month. For the first 36 months of operations beginning with May 2022, you will pay us the greater of $1,000 a month or 5% of the prior month's Net Revenue. Your first Royalty Fee will be due on June 10, 2022. Starting in May 2025 (the 37th month), the Royalty Fee will be the greater of $2,500 or 5% of the prior month's Net Revenue.*

4.3 Net Revenue. "**Net Revenue**" shall mean the total revenue 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. Net Revenue for a project is recognized in full on the first day of an installation. If Franchisee does not provide the necessary information for Classy to calculate Net Revenue, then Classy may estimate Franchisee's Net Revenue based on Franchisee's product purchases or prior Net Revenue information until such time as Franchisee provides the necessary information to Classy.

4.4 **Area Branding Cooperatives.** Whenever there is more than one Classy 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 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 business in a Branding Cooperative (including any Classy 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 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 a branding fee, as a nonrefundable contribution for research, development, quality assurance, Branding, and promotion for the System ("**Branding Fee**"), due and payable into the "Branding Fund" in the same manner and at the same times as Royalty Fees. Currently this fee is calculated based on the population of the franchise territory but does not exceed $12,000 ($1,000 per month). The Branding Fee currently imposed will be stated in Exhibit A, but we reserve the right to increase the fee by up to $2,400 in a given year ($200 a month). Any increases greater than $2,400 per year will be proposed and agreed upon through an amendment to this agreement.

4.6 **Technology Setup Fee**. . Franchisee shall purchase proprietary tools to operate the business. Currently, this includes Classy CRM and Classy CAD (also known as SNaP). Franchisee must pay $1,000 as an initial set-up fee for Classy CRM which will help manage client leads, appointment and installation scheduling among other tasks. Classy CAD is a design software that is used as a sales tool to show clients how their products will look when they are installed. Franchisee must pay a $2,500 set up fee for the software. For this proprietary design software, Franchisee will receive up to 3 users upon execution of this

Agreement. For any additional users, Franchisee must pay $100 per user per month for software maintenance. This is the current monthly charge may be changed by Classy at its sole discretion upon notice to Franchisee, typically thirty (30) days prior to the change.

4.7 **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 $500 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.

4.8 **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 $500 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.

4.9 **Local Advertising**.. Franchise must pay Classy for marketing services for the first year of operation, including an upfront payment for the program covering grand opening and three months, and then a monthly payment starting in Month 4 and continuing for the next nine months, as further described in Section 10.4.5. After the twelve months, you may elect to use outside vendors but you must still meet the minimum spending requirement and obtain Classy's approval of the advertising. The fee is due at the same time and in the same manner as Royalty Fees.

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 or CK&B 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 or CK&B 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 or CK&B Products as provided in Section 6.2.

6.1 Purchases of Classy Closets® Products or CK&B 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 or CK&B 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 or CK&B Products and components it manufactures and sells. Classy shall inform Franchisee of the wholesale prices and available Classy Closets Products or CK&B 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 or CK&B Products and installation services, but Franchisee shall have sole control over the retail prices at which Franchisee sells and installs Classy Closets Products or CK&B 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 or CK&B 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 or CK&B 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 or CK&B Products purchased by Franchisee. Classy warrants that all Classy Closets Products or CK&B 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 or CK&B Products 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 or CK&B Products 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 or CK&B Products in inventory, and for so long as Franchisee's customer occupies the property upon which the allegedly defective Classy Closets product or CK&B Products was installed. This limited warranty does not cover normal wear and tear, and is void if the Classy Closets product or CK&B Products 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 from time to time for Classy Closets Products or CK&B Products and installation services, 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 or CK&B Products and installation services. Franchisee shall honor any warranty for Classy Closets Products or CK&B 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 or CK&B 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 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. Notwithstanding any month-to-month extension, any continuance of business relations between Classy and Franchisee after the termination or expiration of this Agreement will not constitute, and may not be construed as, a reinstatement, renewal, extension beyond a month-to-month arrangement and will not be considered a good faith expectation for continuation of the Agreement unless Franchisee and Classy agree in writing to such renewal, extension, or continuation.

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 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 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 or CK&B Products in connection with Franchisee's use of the Classy 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 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/CK&B Products and services from any Showroom displaying Classy Closets Products or CK&B 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 and Grand Opening. Franchisee must use his best efforts to diligently promote, maintain, and increase the sales of Classy Closets Products or CK&B Products and installation services. Upon signing the Franchise Agreement, the Classy marketing team will begin and manage a marketing plan for the Grand Opening and first 3 months of operation. Classy requires Franchisee to make an upfront lump sum payment for these marketing services, advertising materials and campaigns for the first three months. The opening marketing expenses are anticipated to range between $22,500 and $45,000. Franchisee must pay Classy for all expected advertising costs for this campaign.

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 reserves the right to own the social media accounts used to promote the Franchised Business. If Classy owns these accounts, then Classy also reserves the rights to require Franchisee to pay the provider directly (and keep the account current) or to pay a fee directly to Classy. If Classy owns these accounts, then Classy may provide Franchisee with the passwords and authority to use such accounts to promote the Franchise Business. If Classy manages these social media accounts for Franchisee, Classy may also charge a fee for its services. If Classy exercises these rights after commencement of the Franchise Business when Franchisee has existing and approved accounts, then Classy will provide Franchisee with at least thirty (30) days' notice before requiring assignment of the social media accounts to Classy. If Franchisee has established unapproved accounts, then Classy may require immediate transfer of the account ownership to Classy. Franchisee will provide all necessary passwords and account transfer confirmation as necessary to accomplish the transfer. Further policies and procedures for the social media accounts may be stated in the Manual or will otherwise be communicated to Franchisee in writing. Classy will own any data collected from any social media site used to promote the franchised business. Franchisee acknowledges that Classy has no control over any third party social media actions and that Classy has no obligation to take any special action in the event of a social media boycott, media storm or other complaint, each of which will be addressed on a case-by-case basis.

10.4.5 Local Advertising. In addition to the payment of the Brand Fund Fee, Franchisee should spend a minimum of five percent (5%) of the Franchisee' Net Revenue for each month on Local Advertising. Classy may require a minimum Local Advertising spend of 5% or higher if Franchisee is not able to meet the Minimum Monthly Net Revenue Requirements outlined in Section 2.3.4 upon notice to Franchisee after Classy conducts its sales review with Franchisee. Local Advertising means radio and television advertising and print advertising such as newspaper or magazine advertisements, direct mailings, handbills, internet advertising (including social media) or similar types of advertising and telephone directory advertising that is utilized primarily in the Territory. Within ten (10) days following the end of each monthly or quarterly time period, as stated in the Manual, Franchisee will furnish to Classy, in the form prescribed by Classy, an accurate accounting of the Franchisee's expenditures for Local Advertising during the previous calendar month or quarter. Franchisees are strongly encouraged to market within the geographic area that directly supports their Territory and to not market near another franchisee's Territory, but franchisees are not restricted in the area of their marketing. The Franchisor has no contractual right or obligation to restrict another franchisee's marketing if such marketing meets the Franchisor's System standards. All Local Advertising conducted by Franchisee must have the prior written approval of Classy as stated in Section 10.4.3. Classy has the right to require Franchisee to include certain statements in Franchisee's advertising 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. Classy also requires that Franchisee use Classy's marketing services for the first year of operation, but payment will be made monthly starting in Month 4 after opening and continuing for nine (9) full months.

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.

10.6.2 Data Security. Franchisee is responsible for knowing the credit card requirements and privacy laws. Franchisee must implement safeguards for "personal identifiable information" and must immediately notify Classy of any suspected or actual breach. "Personally Identifiable Information" (PII) of customers and employees must be safeguarded and protected at the franchisor and franchisee level. PII includes not only names, dates of birth, and addresses, but it is also the following: driver's license numbers, social security numbers, account numbers (for some states), state issued IDS, medical information (in some states), mother's maiden name and any other data you collect that could be used to identify a person. If there is an actual or suspected breach Classy will be granted access to the Franchisee's system, this includes access to vendor control and information.

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 Net Revenue 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 Net Revenue 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 Net Revenue 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 Net Revenue exceeds 4% of actual Net Revenue, 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 ten 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. If Franchisee is purchasing an additional franchise for a new territory, this requirement may be waived by Classy in its discretion.

11.1.2 Expenses. No tuition is charged by Franchisor for up to ten employees (including owners, design manager and installation manager) who attend the initial training program within the first six (6) months of operation. After the first six (6) months of operation or if the employees trained exceeds ten (10), then Franchisor will charge $100 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 Net Revenue, 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 or CK&B 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 or CK&B 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 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 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 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 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 CK&B 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 or Classy Kitchen & Bath, 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. During the term of the Franchise Agreement, Franchisee must provide Classy with 90 days' notice before Franchisee purchases any other franchise in any other system, or owns more than 20% of any other business.

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. Franchisee will not during the term of this Agreement or for a period of 180 days after the termination or expiration of this Agreement, refer or promote to any former or current customer the operation of any other business at the site, nor will you promote the operation of any Competing Business in the Area during the Time Period, as defined in Section 12.6.1.

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 royalty 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 Net Revenue 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 Net Revenue 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 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 or CK&B 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 Net Revenue 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. The description of any default in any notice Classy transmits to Franchisee will in no way preclude Classy from specifying additional or supplemental defaults under this Agreement or any related agreements in any action or proceeding relating to this Agreement or termination of this Agreement. 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. Classy may immediately terminate the Agreement upon notice if the Franchisee unilaterally repudiates the Agreement or the performance of any criteria/obligation by word or conduct evidencing an intention to not comply.

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 or CK&B Products, and all unshipped orders for Classy Closets Products or CK&B 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 or CK&B 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 or CK&B 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 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 CK&B 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 must and will 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 must and will 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 must and will 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 for directly relevant documents, production only from sources used in ordinary course of business, limitations on the number people necessary to respond, and the arbitrator has authority to specifically narrow down the production request 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":	"Classy" or "Franchisor":
______________________________	CHRLS, Enterprises, Inc.
By: ______________________ (Signature)	By: ______________________ (Signature)
______________________ (Type or Print Name)	______________________ (Type or Print Name)
Its: ______________________ (Title)	Its: ______________________ (Title)

EXHIBIT 1
TO
FRANCHISE AGREEMENT

TERMS

1.1 Entity. 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 Net Revenue. Franchisee's Minimum Monthly Net Revenue 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 Net Revenue
	1		n/a	None
	2-4		$ 0.030	
	5-7		$ 0.050	
	8-10		$ 0.065	
	Renewing		$ ____	

4.1 Initial Franchise Fee. Franchisee shall pay Franchisor an initial Franchise Fee of $50,000.00 upon the execution of this Agreement.

4.2 Royalty Fee(s). The Grand Opening Date is agreed upon to be the 1st day of _______________, 20__ ("**Grand Opening Date"**), whether or not Franchisee actually does or does not "open", begin operations, or otherwise begin selling or installing Classy Closets' products or CK&B Products. Accordingly, Franchisee's Royalty Fee obligations to Classy shall begin on the 1st day of _______________, 20__, and from that date and for the remainder of the Agreement, Franchisee shall pay the greater of the 5% Standard Royalty Fee or the flat nonrefundable monthly royalty fee of $1,000 for the first 36 months of operations, and $2,500 starting in the 37th month of operation (the "**Minimum Royalty Fee**"). 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.

4.5 Branding Fund Fee. The current Branding Fee is ______ % of Net Revenues.

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

GUARANTY

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 franchised business (collectively, the "**System**").

R E C I T A L S:

A. The Undersigned is a prospective purchaser of a Classy 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 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 (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. **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.

7. **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.

8. **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.

9. **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 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

10. **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 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 business.

11. **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 4
TO FRANCHISE AGREEMENT

ADDENDUMS REQUIRED BY CERTAIN STATES

ADDENDUM
REQUIRED BY THE STATE OF CALIFORNIA

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiting any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person action on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

The Department has determined that we, the franchisor, have not demonstrated we are adequately capitalized and/or that we must rely on franchise fees to fund our operations. The Commissioner has imposed a fee deferral condition, which requires that we defer the collection of all initial fees from California franchisees until we have completed all of our pre-opening obligations and you are open for business. For California franchisees who sign a development agreement, the payment of the development and initial fees attributable to a specific unit in your development schedule is deferred until that unit is open.

Counterparts/Duplicate Originals. This Addendum may be executed in counterparts, each of which shall be regarded as the original and all of which shall constitute one and the same Addendum.

Signatures. A pdf of an executed signature shall have the same force and effect as an originally signed signature.

“**Franchisee**”	“ **Classy Closets**” **or “Franchisor”**
	CHRLS Enterprises, Inc., an Arizona corporation
By: (Signature)	By: (Signature)
(Type or Print Name)	(Type or Print Name)
Its: Owner (Title)	Its: **President** (Title)
By: (Signature)	

(Type or Print Name)

Its: Owner

(Title)

Exhibit D - Reserved

EXHIBIT E

CLASSY CLOSETS OPERATIONS MANUAL
TABLE OF CONTENTS

Pages Per Section

Section

EXHIBIT F

EXISTING FRANCHISES

INDEPENDENTLY OWNED AND OPERATED BY FRANCHISEES

(as of DECEMBER 31, 2021)

Location	Store Address	City, State, Zip	Phone	Company Name	Contact Person
ARIZONA					
Tucson	2010 N Forbes Blvd	Tucson, AZ 85745	520-326-7888	CBC Interiors, LLC	Tim Conner Anna Bowers Carolyn Garliepp
Prescott	9704 E Pantera Ave	Mesa, AZ	(928) 228-0008	Rams CC Design Group	Robert & Angel Mercier
CALIFORNIA					
San Diego (Escondido)	2180 Chablis Court #108	Escondido, CA 92029	760-735-2545	Monaghan Pavitt Enterprises Inc.	Gary Pavitt Kate Monaghan
Laguna Hills	23024 Lake Forest Dr.	Laguna Hills, CA 92653	949-249-5600	Monaghan Pavitt Enterprises Inc.	Gary Pavitt Kate Monaghan
COLORADO					
Colorado Springs	6380 Corporate Centre Circle	Colorado Springs, CO 80919	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 (*See post 12/31/21 information below)	521 W Mesquite Blvd. #B	Mesquite, NV 89027	702-346-2087	PD & C Gendron Enterprises, Inc.	Patrick Gendron
NEW MEXICO					

Location	Store Address	City, State, Zip	Phone	Company Name	Contact Person
Las Cruces	909 W Amador Avenue	Las Cruces, NM 88005	575-652-3609	Closets By Sher-Wood, L.L.C.	Jared Taylor
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
UTAH					
Salt Lake City	7515 South State Street	Midvale, UT 84047	801-572-7712	Closet Masters Inc.	Roger Washburn
St. George (*See post 12/31/21 information below)	1316 S 400 E C-4	St. George, UT 84790	435-673-7830	Creative Storage Solutions, Inc.	Chris McAllister

FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT YET OPENED

As of December 31, 2021

None.

(Franchises are generally permitted to open additional showrooms in their same territory under the same Franchise Agreement with approval).

CHANGES IN INDEPENDENTLY OWNED AND OPERATED BY FRANCHISEES

(after DECEMBER 31, 2021)

None.

OUTLETS OWNED AND OPERATED BY FRANCHISOR/AFFILIATE

(as of DECEMBER 31, 2021)

LOCATION	Address	City, State, Zip	Phone	Company Name	Contact Person
ARIZONA					
Chandler	4320 W. Chandler Blvd #7	Chandler, AZ 85226	480-967-2200	Classy Closets, Etc., Inc.	Duane Standage
Scottsdale	15507 N Scottsdale Rd, #105	Scottsdale, AZ 85254	480-967-2200	Classy Closets, Etc., Inc.	Duane Standage

CHANGES IN OUTLETS OWNED AND OPERATED BY FRANCHISOR/AFFILIATE

(after DECEMBER 31, 2021)

LOCATION	Address	City, State, Zip	Phone	Company Name	Contact Person
TEXAS					
Houston	2319 Timberloch Place, Suite C	The Woodlands, TX 77380	(281) 519-2211	Classy Closets, Etc., Inc.	Tyler Standage

EXHIBIT G

FORMER FRANCHISEES

As of DECEMBER 31, 2021

Franchisees whose agreements were terminated, cancelled or not renewed, or who ceased doing business during the period from January 1, 2021 through December 31, 2021 or who have not communicated with Classy since January 1, 2022 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

FORMER FRANCHISEES
December 31, 2021 through May 31, 2022

Franchisee Name and Last Known Residential or Corporate Address	Location	Date of Termination	Notes
Creative Storage Solutions, Inc. 1316 S 400 E C-4 St. George, UT 84790	St. George, UT	February, 2022	Otherwise Ceased Operations
PD & C Gendron Enterprises, Inc. 521 W Mesquite Blvd. #B Mesquite, NV 89027	Mesquite, NV	February, 2022	Otherwise Ceased Operations

EXHIBIT H

EXISTING DEALERS

(as of DECEMBER 31, 2021)

LOCATION	Address	City, State, Zip	Phone	Company Name	Owner(s)
ARIZONA					
Lake Havasu City	76 N Lake Havasu Ave	Lake Havasu City, AZ 86403	(928) 453-8484	Kitchen & Bath Concepts	Todd Finley
MONTANA					
Great Falls	33 Dune Ridge Ln	Great Falls, MT 59404	(406) 590-2402	Dune Ridge Cabinets & Closets	Susan Manchester
TEXAS					
San Angelo	1523 Barbara Avenue	San Angelo, TX 76904	325-949-1609	Classy Closets	Keith King
San Antonio	431 Isom Rd, Suite 120	San Antonio, TX 78216	210.-64-0020	CM Closet Design	Carlissa Montoya
WYOMING					
Jackson	PO Box 6736	Jackson, WY 83002	307-734-1587	Valley Closets	Sean Milne

EXHIBIT I

FORMER DEALERS

As of DECEMBER 31, 2021

Dealers whose agreements were terminated, cancelled or not renewed, or who ceased doing business during the period from January 1, 2021 through December 31, 2021, or who have not communicated with Classy since January 1, 2022 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, 2021 and December 31, 2020

and

December 31, 2020 and December 31, 2019

and

Unaudited Interim Financial Statements for the ten-month period ending October 31, 2022

CHRLS ENTERPRISES, INC.

Unaudited Interim Financial Statements
for the 10-month period
ending October 31, 2022

CHRLS Enterprises, Inc.

BALANCE SHEET	**As of October 31, 2022**
Cash	56,851
Receivables - Royalties	104,230
Accounts Receivable - CCEI	121,408
Property and equipment, net	149,121
Software Development	22,374
	453,984
Accounts payable	2,939
Accounts Payable - CCEI	53,229
Accrued liabilites	59,725
Capital stock	12,240
Additional paid-in capital	14,800
Retained earnings (deficit)	311,051
	453,984

STATEMENT OF INCOME		For the ten months ended October 31, 2022
REVENUE		
Income - Royalties		1,081,850
Income - Royalties CCEI		474,446
Other income		61,050
	REVENUE	1,617,346
EXPENSES		
Accounting		29,561
Advertising		214,235
Bank charges		50
Royalty - Classy Etc		122,000
Salaries and Wages		1,152,973
Office		4,681
Employee Retention Credit		(95,952)
		1,427,548
	NET INCOME	189,798
Shareholder distributions		-
Net change in retained earnings		189,798

CHRLS Enterprises, Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

CHRLS Enterprises, Inc.
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

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

We have audited the accompanying financial statements of CHRLS Enterprises, Inc, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, stockholder's 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, 2021 and 2020, 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
February 8, 2022

CHRLS Enterprises, Inc.
BALANCE SHEET
DECEMBER 31, 2021 AND 2020

ASSETS

CURRENT ASSETS:		2021		2020
Cash	$	10,518	$	61,438
Accounts receivable, net of allowance of $0 for both 2021 and 2020		36,584		29,707
Accounts receivable - related party		67,962		-
Total current assets		115,064		91,145
Property and equipment, net		149,121		43,125
Total assets	$	264,185	$	134,270

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		2021		2020
Accounts payable	$	2,939	$	2,939
Accounts payable - related party		53,229		15,038
Accrued liabilities		59,725		-
Notes payable		-		14,480
Total current liabilities		115,893		32,457
Total liabilities		115,893		32,457
STOCKHOLDER'S EQUITY				
Capital stock		12,240		12,240
Additional paid in capital		14,800		14,800
Retained earnings		121,252		74,773
Total equity		148,292		101,813
Total equity and liabilities	$	264,185	$	134,270

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
REVENUES		
Royalty revenue	$ 546,124	$ 380,138
Royalty revenue - related party	800,000	40,000
Other income	70,879	43,974
Total revenues	1,417,003	464,112
EXPENSES		
Compensation costs	965,003	-
Royalty payment	252,000	370,000
Advertising	83,763	5,439
Professional fees	39,605	4,750
Depreciation expense	24,493	1,875
Travel & meals	3,310	-
401K Expense	1,810	-
Office expense	449	-
Bank charges	91	2
Management fees	-	45,000
Total expenses	1,370,524	427,066
Net income	$ 46,479	$ 37,046

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock (1)	Additional Paid in Capital	Retained Earnings	Total
Balance December 31, 2019	$ 36,720	$ 14,800	$ 37,727	$ 89,247
Net Income			37,046	37,046
Stock Redemptions	(24,480)		-	(24,480)
Balance December 31, 2020	$ 12,240	$ 14,800	$ 74,773	$ 101,813
Net Income			46,479	46,479
Balance December 31, 2021	$ 12,240	$ 14,800	$ 121,252	$ 148,292

(1) Par Value: $1.00 per share
Authorized: 1,000,000 shares
Issued and outstanding 12,240 shares

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 46,479	$ 37,046
Adjustments to reconcile net income to net cash		
Depreciation expense	24,493	1,875
Changes in operating assets and liabilities:		
Accounts receivable (net)	(6,877)	11,463
Accounts receivable - related party	(67,962)	60,000
Accounts payable	-	2,939
Accrued liabilities	59,725	-
Accounts payable - related party	38,191	(10,000)
Net cash provided by (used in) operating activities	94,049	103,323
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(130,489)	(45,000)
Net cash used in investing activities	(130,489)	(45,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
Redemption of shares of common stock	-	(24,480)
Financing from notes payable	(14,480)	14,480
Net cash used in financing activities	(14,480)	(10,000)
Net increase (decrease) in cash	(50,920)	48,323
CASH AT BEGINNING OF YEAR	61,438	13,115
CASH AT END OF YEAR	$ 10,518	$ 61,438

See accompanying notes and independent auditor's report

1. ORGANIZATION AND NATURE OF OPERATIONS

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 5). This franchised business system includes designing, manufacturing, and installing custom cabinet and closet systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition:

The Company derives its revenues primarily from franchise royalties based on a percent of gross sales. Royalty revenues are calculated by contractual formula with reference to the prior-year revenues of the franchisee, with a minimum royalty determined by the population of the franchise territory. Revenues are recognized monthly as they become due and payable based on the franchisee’s contractual obligation. Revenues from initial franchise fees are recognized in the year the franchise agreement is executed and all of the initial services required by the agreement have been performed. The Company does not have any significant financing components as payment is received at, or shortly after, the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

Performance Obligations - The performance obligations related to the revenues from the sale of a new franchise territory consist of the initial training, the providing of marketing recommendations, and allowing access to proprietary software. Ongoing performance obligations consist of being available for ongoing training and assistance as needed.

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, 2021, the Company 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.

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.

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.

Advertising Costs:

Advertising costs are expensed as incurred. Advertising expenses incurred for the years ending December 31, 2021 and December 31, 2020 totaled $83,763 and $5,439, respectively.

Evaluation of Subsequent Events:

Management has evaluated subsequent events through February 8, 2022, the date the financial statements were available to be issued.

3. 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.

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation as of December 31, 2021 and 2020:

	2021	2020
Software	$ 130,628	$ 45,000
Vehicles	44,860	-
	175,489	45,000
Less accumulated depreciation	(26,368)	(1,875)
Property and equipment, net	$ 149,121	$ 43,125

5. RELATED PARTY TRANSACTIONS

Classy Closets Etc., Inc. (CCEI)

CCEI is an Arizona corporation owned by the stockholder of the Company. The Company is a party to a management agreement with CCEI whereby CCEI provides various management and administrative services to the Company. During the year ended December 31, 2021 there were no management fees incurred under this agreement. During the year ended December 31, 2020 management fees incurred under this agreement totaled $45,000.

For the years ending December 31, 2021 and 2020. CCEI provided royalty revenues to the Company in the amount of $800,000 and $40,000 respectively.

The balances due CCEI as of December 31, 2021 and 2020 respectively were $53,229 and $15,038.

Classy Etc., Inc. (CEI)

CEI is an Arizona corporation owned by the stockholder of the Company. The Company is a party to a licensing agreement with CEI for the use of the trade name Classy Closets®. During the years ending December 31, 2021 and 2020, the Company paid CEI $252,000 and $370,000 respectively. There were no balances due CEI as of December 31, 2021 or December 31, 2020.

6. COMMITMENTS AND CONTINGENCIES

At December 31, 2021, 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.

7. REVENUES – SUPPORTING DISCLOSURES

Disaggregation of Revenues

Disaggregation of Revenues for the years ended December 31, 2021 and December 31, 2020 are presented as follows:

2021 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 129,936			$ 129,936
Southern Utah	42,164			42,164
Southern California	97,668			97,668
Colorado	105,504			105,504
Nevada	78,060			78,060
Texas	29,442			29,442
New Mexico	11,028			11,028
Kansas	816			816
Southern Arizona	26,256			26,256
Central Arizona - Related Party	800,000		70,879	870,879
Northern Arizona	8,000	17,250		25,250
Total Revenues 2021	$ 1,328,874	$ 17,250	$ 70,879	$ 1,417,003

See independent auditor's report

2020 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 95,403			$ 95,403
Southern Utah	34,690			34,690
Southern California	78,009			78,009
Colorado	64,785			64,785
Nevada	53,592			53,592
Texas	19,735			19,735
New Mexico	4,500			4,500
Kansas	1,350			1,350
Southern Arizona	28,074			28,074
Central Arizona - Related Party	40,000		43,974	83,974
Total Revenues 2020	$ 420,138	$ -	$ 43,974	$ 464,112

CHRLS Enterprises, Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

CHRLS Enterprises, Inc.
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, and the related statements of income, stockholder's 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, 2020 and 2019, 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
April 8, 2021

5949 W. Chandler Blvd, Suite 2 Chandler, AZ 85226 | **P**: 480-968-1500 **F**: 480-491-9886 | www.**fccpas**.net

CHRLS Enterprises, Inc.
BALANCE SHEET
DECEMBER 31, 2020 AND 2019

ASSETS

		2020		2019
CURRENT ASSETS:				
Cash	$	61,438	$	13,115
Accounts receivable, net of allowance of $0 for both 2020 and 2019		29,707		41,170
Accounts receivable - related party		-		60,000
Total current assets		91,145		114,285
Property and equipment, net		43,125		-
Total assets	$	134,270	$	114,285

LIABILITIES AND STOCKHOLDER'S EQUITY

		2020		2019
CURRENT LIABILITIES				
Accounts payable	$	2,939	$	-
Accounts payable - related party		15,038		25,038
Notes payable		14,480		-
Total current liabilities		32,457		25,038
Total liabilities		32,457		25,038
STOCKHOLDER'S EQUITY				
Capital stock		12,240		36,720
Additional paid in capital		14,800		14,800
Retained earnings		74,773		37,727
Total equity		101,813		89,247
Total equity and liabilities	$	134,270	$	114,285

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

		2020		2019
REVENUES				
Royalty revenue	$	380,138	$	387,218
Royalty revenue - related party		40,000		-
Other income		43,974		56,478
Total revenues		464,112		443,696
EXPENSES				
Royalty payment		370,000		280,000
Management fees		45,000		140,038
Advertising		5,439		-
Professional fees		4,750		-
Depreciation expense		1,875		-
Franchisee gifts		-		1,000
Bank Charges		2		3
Total expenses		427,066		421,041
Net income	$	37,046	$	22,655

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock (1)	Additional Paid in Capital	Retained Earnings	Total
Balance December 31, 2018	$ 36,720	$ 14,800	$ 15,072	$ 66,592
Net Income			22,655	22,655
Dividends			-	-
Balance December 31, 2019	$ 36,720	$ 14,800	$ 37,727	$ 89,247
Net Income			37,046	37,046
Stock Redemptions	(24,480)		-	(24,480)
Balance December 31, 2020	$ 12,240	$ 14,800	$ 74,773	$ 101,813

(1) Par Value: $1.00 per share
Authorized: 1,000,000 shares
Issued and outstanding as of December 31, 2019: 36,720 shares
Issued and outstanding as of December 31, 2020: 12,240 shares

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 37,046	$ 22,655
Adjustments to reconcile net income to net cash		
Depreciation expense	1,875	-
Changes in operating assets and liabilities:		
Accounts receivable (net)	11,463	13,202
Accounts receivable - related party	60,000	(37,539)
Accounts payable	2,939	-
Accounts payable - related party	(10,000)	(19,462)
Net cash provided by (used in) operating activities	103,323	(21,144)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(45,000)	-
Net cash used in investing activities	(45,000)	-
CASH FLOW FROM FINANCING ACTIVITIES:		
Redemption of shares of common stock	(24,480)	-
Financing from notes payable	14,480	
Net cash used in financing activities	(10,000)	-
Net increase (decrease) in cash	48,323	(21,144)
CASH AT BEGINNING OF YEAR	13,115	34,259
CASH AT END OF YEAR	$ 61,438	$ 13,115

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. ORGANIZATION AND NATURE OF OPERATIONS

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 5). This franchised business system includes designing, manufacturing, and installing custom cabinet and closet systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition:

The Company derives its revenues primarily from franchise royalties based on a percent of gross sales. Royalty revenues are calculated by contractual formula with reference to the prior-year revenues of the franchisee, with a minimum royalty determined by the population of the franchise territory. Revenues are recognized monthly as they become due and payable based on the franchisee’s contractual obligation. Revenues from initial franchise fees are recognized in the year the franchise agreement is executed and all of the initial services required by the agreement have been performed. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expenses as incurred when the amortization period is less than a year.

Performance Obligations - The performance obligations related to the revenues from the sale of a new franchise territory consist of the initial training, the providing of marketing recommendations, and allowing access to proprietary software. Ongoing performance obligations consist of being available for ongoing training and assistance as needed.

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, 2020, the Company 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.

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.

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.

Advertising Costs:

Advertising costs are expensed as incurred. Advertising expenses incurred for the year ending December 31, 2020 totaled $5,439. The Company did not incur any advertising expense for the year ended or December 31, 2019.

Evaluation of Subsequent Events:

Management has evaluated subsequent events through April 1, 2021, the date the financial statements were available to be issued.

3. 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.

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation as of December 31, 2020 and 2019:

	2020	2019
Software	$ 45,000	$ -
	45,000	-
Less accumulated depreciation	(1,875)	-
	$ 43,125	$ -

5. RELATED PARTY TRANSACTIONS

Classy® Closets Etc., Inc. (CCEI)

CCEI is an Arizona corporation owned by the stockholder of the Company. The Company is a party to a management agreement with CCEI whereby CCEI provides various management and administrative services to the Company. During the year ended December 31, 2020, management fees incurred under this agreement totaled $45,000. During the year ended December 31, 2019, management fees incurred under this agreement totaled $140,038.

Classy Etc., Inc. (CEI)

CEI is an Arizona corporation owned by the stockholder of the Company. The Company is a party to a licensing agreement with CEI for the use of the trade name 'Classy® Closets'. During the years ended December 31, 2020 and December 31, 2019, the Company paid CEI $370,000 and $280,000, respectively, as a royalty for the use of the trade name.

The balances due CCEI and CEI, in the aggregate, as December 31, 2020 and December 31, 2019, respectively, were $15,038 and $25,038 and are included on the balance sheet as *Accounts payable - related party*.

For the year ending December 31, 2020, CEI provided royalty revenues to the Company in the amount of $40,000. The royalty revenues due from CEI were paid in full as of December 31, 2020.

6. STOCK REDEMPTIONS

The Company began the year 2020 with three stockholders. During the year, the Company redeemed the shares of two of those three stockholders. Accordingly, as of December 31, 2020, the remaining stockholder owned all of the outstanding shares of the Company. The outstanding balance on the notes payable of $14,480 as of December 31, 2020 represents an unpaid obligation of the Company on the redemption of the shares. These notes are due on demand and accrue interest at the United States Treasury Department's short-term applicable federal rate as of December 31, 2020, which was .15%.

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2020, 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.

8. REVENUES – SUPPORTING DISCLOSURES

Disaggregation of Revenues

Disaggregation of Revenues for the years ended December 31, 2020 and December 31, 2019 are presented as follows:

2020 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 95,403			$ 95,403
Southern Utah	34,690			34,690
Southern California	78,009			78,009
Colorado	64,785			64,785
Nevada	53,592			53,592
Texas	19,735			19,735
New Mexico	4,500			4,500
Kansas	1,350			1,350
Southern Arizona	28,074			28,074
Central Arizona	40,000		43,974	83,974
Total Revenues 2020	$ 420,138	$ -	$ 43,974	$ 464,112

See independent auditor's report

2019 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 92,996			$ 92,996
Southern Utah	33,777			33,777
Southern California	82,066			82,066
Colorado	66,845			66,845
Nevada	60,333			60,333
Texas	23,829			23,829
New Mexico		7,500		7,500
Kansas	894			894
Southern Arizona	18,978			18,978
Central Arizona			56,478	56,478
Total Revenues 2019	$ 379,718	$ 7,500	$ 56,478	$ 443,696

CHRLS Enterprises, Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

CHRLS Enterprises, Inc.
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, and the related statements of income, stockholder's 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, 2019 and 2018, 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
May 19, 2020

5949 W. Chandler Blvd, Suite 2 Chandler, AZ 85226 | **P**: 480-968-1500 **F**: 480-491-9886 | www.**fccpas**.net

CHRLS Enterprises, Inc.
BALANCE SHEET
DECEMBER 31, 2019 AND 2018

ASSETS

CURRENT ASSETS:		2019		2018
Cash	$	13,115	$	34,259
Accounts receivable, net of allowance of $0 for both 2019 and 2018		41,170		54,372
Accounts receivable - related party		60,000		22,461
Total current assets		114,285		111,092
Total assets	$	114,285	$	111,092

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES				
Accounts payable	$	-	$	4,500
Accounts payable - related party		25,038		40,000
Total current liabilities		25,038		44,500
Total liabilities		25,038		44,500
STOCKHOLDER'S EQUITY				
Capital stock		36,720		36,720
Additional paid in capital		14,800		14,800
Retained earnings		37,727		15,072
Total equity		89,247		66,592
Total equity and liabilities	$	114,285	$	111,092

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Royalty revenue	$ 387,218	$ 321,235
Royalty revenue - related party	-	212,770
Other income	56,478	52,838
Total revenues	443,696	586,843
EXPENSES		
Royalty payment	280,000	308,000
Management fees	140,038	40,000
Franchisee Gifts	1,000	904
Professional fees	-	550
Bank Charges	3	-
Total expenses	421,041	349,454
Net income	$ 22,655	$ 237,389

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock (1)	Additional Paid in Capital	Retained Earnings	Total
Balance December 31, 2017	$ 36,720	$ 14,800	$ (55,817)	$ (4,297)
Net Income			237,389	237,389
Dividends			(166,500)	(166,500)
Balance December 31, 2018	$ 36,720	$ 14,800	$ 15,072	$ 66,592
Net Income			22,655	22,655
Dividends			-	-
Balance December 31, 2018	$ 36,720	$ 14,800	$ 37,727	$ 89,247

(1) Par Value: $1.00 per share
Authorized: 1,000,000 shares
Issued and outstanding as of December 31, 2019 and December 31, 2018: 36,720 shares

See accompanying notes and independent auditor's report

CHRLS Enterprises, Inc.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 22,655	$ 237,389
Adjustments to reconcile net income to net cash		
Changes in operating assets and liabilities:		
Accounts receivable (net)	13,202	(20,271)
Accounts receivable - related party	(37,539)	(12,770)
Accounts payable - related party	(19,462)	(215,284)
Net cash used in operating activities	(21,144)	(10,936)
CASH FLOW FROM INVESTING ACTIVITIES:		
	-	-
CASH FLOW FROM FINANCING ACTIVITIES:		
Distributions to owners	-	(166,500)
Net cash used in financing activities	-	(166,500)
Net decrease in cash	(21,144)	(177,436)
CASH AT BEGINNING OF YEAR	34,259	211,695
CASH AT END OF YEAR	$ 13,115	$ 34,259

See accompanying notes and independent auditor's report

1. ORGANIZATION AND NATURE OF OPERATIONS

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 4). This franchised business system includes designing, manufacturing, and installing custom cabinet and closet systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition:

The Company derives its revenues primarily from franchise royalties based on a percent of gross sales. Royalty revenues are calculated by contractual formula with reference to the prior-year revenues of the franchisee, with a minimum royalty determined by the population of the franchise territory. Revenues are recognized monthly as they become due and payable based on the franchisee's contractual obligation. Revenues from initial franchise fees are recognized in the year the franchise agreement is executed and all of the initial services required by the agreement have been performed. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expenses as incurred when the amortization period is less than a year. See **Note 6** for a discussion of the adoption of FASB ASC 606.

Performance Obligations - The performance obligations related to the revenues from the sale of a new franchise territory consist of the initial training, the providing of marketing recommendations, and allowing access to proprietary software. Ongoing performance obligations consist of being available for ongoing training and assistance as needed.

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, 2019, 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.

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.

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.

Advertising Costs:

Advertising costs are expensed as incurred. The Company did not incur any advertising expense for the years ended December 31, 2019 or December 31, 2018.

Evaluation of Subsequent Events:

Management has evaluated subsequent events through May 19, 2020, the date the financial statements were available to be issued. Management does not consider events related to the Covid 19 virus outbreak to have an impact on the 2019 financial statements. Monitoring of the potential impact on the Company’s operations is ongoing.

3. 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 2017, 2018 and 2019 are subject to examination by taxing authorities.

4. 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, 2019, management fees incurred under this agreement totaled $140,038. During the year ended December 31, 2018, management fees incurred under this agreement totaled $40,000.

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, 2019 and December 31, 2018, the Company paid CEI $280,000 and $308,000, respectively, as a royalty for the use of the trade name.

The balances due CCEI and CEI, in the aggregate, as December 31, 2019 and December 31, 2018, respectively, were $25,038 and $40,000 and are included on the balance sheet as *Accounts payable - related party*.

For the year ending December 31, 2018, CEI provided royalty revenues to the Company in the amount of $212,770. The unpaid balance as of December 31, 2019 is $60,000 and is included on the balance sheet as *Accounts receivable - related party*.

5. COMMITMENTS AND CONTINGENCIES

At December 31, 2019, 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.

6. ADOPTION OF NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements of FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Company adopted the requirements of the new guidance as of January 1, 2018, utilizing the full retrospective method of transition.

The adoption of this ASC did not have a significant impact on the Company's financial statements. The revenue recognition policies as a franchisor did not change materially from the previous revenue-recognition approach. Accordingly, no change to the retained earnings as of January 1, 2019 was required.

Disaggregation of Revenues

Disaggregation of Revenues for the years ended December 31, 2019 and December 31, 2018 are presented as follows:

2019 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 92,996			$ 92,996
Southern Utah	33,777			33,777
Southern California	82,066			82,066
Colorado	66,845			66,845
Nevada	60,333			60,333
Texas	23,829			23,829
New Mexico		7,500		7,500
Kansas	894			894
Southern Arizona	18,978			18,978
Central Arizona			56,478	56,478
Total Revenues 2019	$ 379,718	$ 7,500	$ 56,478	$ 443,696

2018 Location	Annual Royalties	Initial Franchise Fees	Other Income	Total
Northern Utah	$ 70,564			$ 70,564
Southern Utah	30,290			30,290
Southern California	78,977			78,977
Colorado	58,580			58,580
Nevada	44,002			44,002
Texas	20,485			20,485
Kansas	1,206			1,206
Southern Arizona	17,131			17,131
Central Arizona	212,770		52,838	265,608
Total Revenues 2018	$ 534,005	$ -	$ 52,838	$ 586,843

EXHIBIT K

AGENTS FOR SERVICE OF PROCESS

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

Duane Standage
1251 S Nelson Drive
Chandler, AZ 85226

California	Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (213) 576-7500

EXHIBIT L

ACKNOWLEDGEMENT OF 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)
4 – Addendums Required by Certain States

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 L Acknowledgement of Completed Documents
☐ Exhibit M Confirmation of Sales Procedures

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

ACKNOWLEDGEMENT OF 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.

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☐ ________________________________

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☐ ________________________________
☐ ________________________________
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☐ ________________________________

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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 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
   4 - Addendums Required by Certain States
   Exhibit D – Reserved
   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 – Acknowledgement of Completed Documents
   Exhibit M – Confirmation of Sales Procedures
   Exhibit N – End-User License Agreement

   State Effective Date Page
   Receipts

   ____________ Date

   ____________ Initial

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

   ____

   ____ ____________ Initial

   ____.

3. I have had the opportunity to ask questions on 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)
Exhibit 4 – Addendums Required by Certain States

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 actually signed the Franchise Agreement: ____________ Date

____________ Initial

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

____________ Initial

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

____

____

____.

12. 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

____

____

____

____.

Dated: _______________, 20____

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

EXHIBIT N

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 (aka SNaP), ClassyCAD Pro, ClassyCAD LT, ClassyCRM, ClassyCOS are either registered trademarks or trademarks of Classy Etc., Inc.

All other product names or trademarks mentioned herein are trademarks of the respective owners.

STATE EFFECTIVE DATES

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

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective date stated below:

California	Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller assisted marketing plans.

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 AARON STANDAGE, 1251 S. Nelson Drive, Chandler, Arizona 85226, Telephone: 480-967-2200.

Issuance Date: June 1, 2022

See Exhibit K for our registered agents authorized to receive service of process.

On ____________, I received a disclosure document dated June 1, 2022 which 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
4 - Addendums Required by Certain States
Exhibit D - Reserved
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 - End-User License Agreement
State Effective Date Page
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

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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Issuance Date: June 1, 2022

See Exhibit K for our registered agents authorized to receive service of process.

On ____________, I received a disclosure document dated June 1, 2022, as amended, which included the following Exhibits:

Exhibit A - State Agencies
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____
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