

## FRANCHISE DISCLOSURE DOCUMENT

CLOSETS UNLIMITED OF NEW JERSEY, INC.

A New Jersey Corporation  
436 Commerce Lane, Suite D  
West Berlin, NJ 08091  
b.lewis@cscmsp.com  
(856) 627-5700  
www.closetandstorageconcepts.com



The franchise offered is for the operation of a Closet & Storage Concepts business providing for the designing, marketing, construction and installing of residential and commercial storage space including closets, garages, and other storage areas for consumers and the selling of related accessories in a retail showroom.

The total investment necessary to begin operation of a Closet & Storage Concepts franchised business is \$110,300 to \$624,900 This includes \$38,700 to \$57,200 that must be paid to the franchisor or its affiliate(s).

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

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Robert Lewis, 436 Commerce Lane, Suite D, West Berlin, NJ 08091, (856) 627-5700.

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

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as "Buying a Franchise, A Consumer Guide" which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://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.

Date of Issuance: April 19, 2023

## 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
<b>How much can I earn?</b>	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 D.
<b>How much will I need to invest?</b>	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.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit E includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchise outlets.
<b>Will my business be the only Closet &amp; Storage Concepts business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Closet &amp; Storage Concepts franchisee?</b>	Item 20 or Exhibits D list current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	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 A.

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 litigation only in the then-current county and state where our corporate headquarters is located (currently, Camden County, New Jersey). Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost more to litigate with the franchisor in the then-current county and state where our corporate headquarters is located than in your own state.
2. **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.
3. **Mandatory Minimum Payments.** You must make minimum royalty or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.
4. **Supplier Control.** You must purchase all or nearly all of the inventory or supplies that are necessary to operate your business from the franchisor, its affiliates, or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business.

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

**THE FOLLOWING PROVISIONS APPLY ONLY TO TRANSACTIONS GOVERNED  
BY THE MICHIGAN FRANCHISE INVESTMENT LAW**

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

- (a) A prohibition on the right of a franchisee to join an association of franchises.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than thirty (30) days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than five (5) years, and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least six (6) months' advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the

proposed transfer.

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

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

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of the franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

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

Any questions regarding this notice should be directed to:

State of Michigan Consumer Protection Division  
Attn: Franchise  
670 G. Mennen Williams Building  
525 W. Ottawa Street  
Lansing, Michigan 48909  
(517) 373-7117

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## **EXHIBITS TO FRANCHISE DISCLOSURE DOCUMENT**

- Exhibit A - List of State Administrators/Agents for Service of Process
- Exhibit B - Closet & Storage Concepts Franchise Agreement
- Exhibit C - Table of Contents – Closet & Storage Concepts Operations Manual
- Exhibit D - List of Closet & Storage Concepts Franchisees
- Exhibit E - Financial Statements
- Exhibit F- State Addendum

APPLICABLE STATE LAW MIGHT REQUIRE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS DISCLOSURE DOCUMENT, AND MIGHT REQUIRE A RIDER TO THE FRANCHISE AGREEMENT. THESE ADDITIONAL DISCLOSURES AND RIDERS, IF ANY, APPEAR IN EXHIBIT F.



## **ITEM 1 - THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES**

The Franchisor is Closets Unlimited of New Jersey, Inc., a New Jersey corporation. To simplify the language in this Disclosure Document, Closets Unlimited of New Jersey, Inc., will be referred to as “we” or “us”. “You” means the individual or individuals or corporation, partnership or limited liability company buying the franchise. If you are a business entity, each of the following individuals must sign our Guaranty: (i) each of your shareholders if you are a corporation; (ii) each of your partners if you are a general partnership; or (iii) each of your members and managers if you are a limited liability company. All of the provisions of our Franchise Agreement (a copy of which is attached as Exhibit B to this Disclosure Document) will apply to you and to each individual who signs the Guaranty.

### **Franchisor, Parent and Affiliates**

We conduct business under the trade name Closet & Storage Concepts®. We also conduct business and grant franchises under a separate mark, More Space Place®. We maintain our principal business address at 436 Commerce Lane, Suite D, West Berlin, NJ 08091. We are a New Jersey Corporation, incorporated in January, 1987. In 1989, we started our business, operating under the trade name Closet & Storage Concepts, by acquiring the assets of an unrelated closet and storage design and installation company. We own and operate four company owned locations similar to the Closet & Storage Concepts Business that we are offering. We own and operate one company owned location similar to the More Space Place business which we separately franchise. We have never offered franchises in other lines of business. Except as noted in this paragraph, we have never engaged in any other business.

Our affiliate, MSP Manufacturing, Inc., a Florida corporation, has a principal business address at 5040 140<sup>th</sup> Ave N, Clearwater, FL 33760. MSP Manufacturing manufactures and distributes to franchisees, cabinet components, Murphy bed frames, hardware and accessories, mattresses, decorative doors and drawer fronts. It has not operated the type of business being franchised. Our affiliate has never offered franchises in this or any other line of business.

We have no other parents or affiliates.

### **Predecessor**

On October 31, 2013, we acquired a substantial portion of the assets of More Space Place, Inc., a Michigan corporation. More Space Place, Inc. was formed in 2002 for the purpose of owning retail outlets and selling More Space Place franchises. It operated from its headquarters located at 5040 140th Avenue North, Clearwater, Florida, 33760.

More Space Place, Inc. operated two franchised businesses similar to the More Space Place business that we franchise. It operated a location in Palm Harbor, FL from August 1999-July 2013 and a location in Pinellas Park, FL from September 1997-July 2013. It never engaged in any other business activity nor offered franchises in any other lines of business. More Space Place

businesses sell and service our products and other products that utilize the concepts of vertical storage and space-saving and maximize multi-functional use of existing space to create spacious rooms.

We have no other predecessors.

### **Agent for Service of Process**

Our Agents for Service of Process can be located in Exhibit A of this Disclosure Document.

### **The Business We Offer**

Closet & Storage Concepts businesses operate locations under the mark Closet & Storage Concepts® and other marks which we may implement. If you purchase a Closet & Storage Concepts franchise, you will design, market, construct and install custom storage spaces including closets and garages in customer's homes (the "Franchised Business"). These custom storage design systems will be designed and installed to fit certain available styles and to meet particular customer preferences, needs and decors. Depending upon the level of your investment you will either manufacture the custom storage design systems or purchase the manufactured products from other companies or other Closet & Storage Concepts franchisees. You may operate a retail showroom in connection with the custom storage space business. In addition, as a Closet & Storage Concepts franchisee, you will sell accessories related to custom storage space distributed under the Closet & Storage Concepts name and logo. These accessories may be manufactured by us or third party suppliers that we designate. The related accessories include various types of doors, closet hangers, tie and belt racks, closet rods, shoe keepers, garment racks, baskets and other related accessories. In certain circumstances, if we feel demand requires it, we may allow you to operate the Franchised Business out of more than one (1) location under your existing franchise agreement within your granted Territory.

### **Applicable Regulations**

If required by state or local law, you must obtain your own contractor's license or any other license or registration necessary to conduct business including zoning and business operation permits and registration of salespeople selling to residential consumers. You must not begin to conduct the Franchised Business until all of these licenses have been obtained. There may be other specific laws in your state or municipality that apply to the Franchised Business relating to labor, health and safety, construction licensing, zoning, privacy or other matters. You and your advisors should examine these laws before entering into the Franchise Agreement. You must investigate, keep informed of and comply with these laws.

### **Competition**

The market for the products and services sold is rapidly developing, includes all age groups, economic levels, geographic areas, and includes both retail and commercial sales potential. You will compete with other businesses selling similar products and services, including retail and non-retail operations, department stores, furniture stores, or specialty stores that sell our type of

products, including custom and modular closet and storage space design and installation services and other products that utilize the concepts of vertical storage and space-saving systems. Our marketing efforts are guided towards certain economic demographics and some areas of the country can experience seasonal sales trends.

## **ITEM 2 - BUSINESS EXPERIENCE**

### **President, Secretary and Sole Director: Robert Lewis**

Mr. Lewis is our founder. Since we commenced the business of designing, marketing, constructing and installing residential and commercial storage space in 1989, through the present, Mr. Lewis has been our President, Secretary and sole Director.

### **Chief Financial Officer: Ed Gaubert**

Mr. Gaubert has served as our Chief Financial Officer from January, 2015 through the present. Since 2009, Mr. Gaubert has also been a contract CFO with SMB Franchise Advisors, located in Doylestown PA.

### **Director of Operations: Dawn Smith**

Ms. Smith joined us as a Corporate Store Manager in March 2001. Ms. Smith was promoted to National Field Support in August, 2003 and to National Sales Manager in July, 2004. From December, 2007 through the present, Ms. Smith has been our Director of Operations.

### **National Production Training Manager: Gary Berthel**

In September 1995, Mr. Berthel joined us as Assistant Production Manager. He has served as our National Production Training Manager from August, 2000 through the present.

### **Director of Technology: Jason Friedley**

Mr. Friedley joined us as a CAD designer in February, 2006 and was promoted to Director of Technology in June, 2011.

### **National Sales Training Manager: Tim Albert**

Mr. Albert joined us in 2002 as a Designer. He was promoted to National Sales Training Manager in January, 2012.

## **ITEM 3 - LITIGATION**

### **Trademark Litigation**

CASE NO.: 8:20-cv-00447-MDN, pending in the United States District Court for the District of Nebraska. Plaintiff Storage Concepts, Inc., an Omaha-based custom closet provider,

filed suit against the Franchisor and its Omaha franchisee alleging trademark infringement resulting from the use of the “Closet & Storage Concepts” name and mark. In January 2021, Plaintiff filed a motion for preliminary injunction seeking to enjoin Franchisor and its franchisee from using the “Closets & Storage Concepts” name in its geographic area.

In September, 2021, the parties entered into a settlement agreement and the litigation was dismissed. Pursuant to the settlement agreement, we agreed to cease using the trademark CLOSET & STORAGE CONCEPTS in the following counties.

Nebraska: Cass, Douglas, Sarpy, Saunders, Washington, Dodge, Lancaster, Seward, Dixon, Wayne, Dakota, Otoe, Butte, Thurston, Cuming, Platte, Colfax, Butler, Polk, Hall, Hamilton, Howard, Merrick, and York.

Iowa: Harrison, Mills, Pottawattamie, Plymouth, Woodbury, Monona, Fremont, Polk, Dallas, Warren, Madison, Guthrie, and Jasper.

We also agreed to pay the Plaintiff an amount equal to \$115,000.

No other litigation is required to be disclosed in this Item.

#### **ITEM 4 - BANKRUPTCY**

No bankruptcies are required to be disclosed in this Item.

#### **ITEM 5 - INITIAL FEES**

The Initial Franchise Fee for a Closet & Storage Concepts franchise is Forty Four Thousand Five-hundred dollars (\$44,500.00) for a territory having a population of 1,000,000 individuals or more. If you are in compliance with your Closet & Storage Concepts franchise agreement(s), and any other agreements with us, you may apply for another Closet & Storage Concepts franchise license and we may grant you the right to operate an additional Closet & Storage Concepts business. The Initial Franchise Fee for each Closet & Storage Concepts business beyond the first one is Thirty Six Thousand dollars (\$36,000.00). Once your Franchised Business has been established, if we feel demand justifies it, we may allow you to operate the Franchised Business out of more than one location within your granted Territory to better service the customers in your Territory under your existing Franchise Agreement. There are no additional initial fees associated with that. All Initial Franchise Fees are payable in full and in a lump sum when you sign the Franchise Agreement. All Initial Franchise Fees are deemed earned upon the signing and delivery of the Franchise Agreement by us. Initial Franchise Fees are not refundable to you in whole or in part under any circumstances. Initial Franchise Fees are imposed uniformly on all franchisees and are not refundable under any circumstances, except that we may negotiate the Initial Franchise Fee as an inducement for existing operators to open additional locations, to induce someone to take over an operating Franchised Business or similar circumstances or considerations.

#### **CAD Design Software Key**

You are obligated to purchase a minimum of one (1) CAD Design Software Key from us for your Closet & Storage Concepts business; which will have our proprietary product library, to operate the Franchised Business. The current cost for one (1) CAD Design Software Key is \$2,700.00. This fee is subject to change based on changes in operating requirements and changes in the software manufacturer's pricing.

### **Opening Showroom Displays**

You are obligated to have for your Closet & Storage Concepts business opening showroom displays and some warehouse inventory, which can be sold as regular/sellable inventory at the appropriate time. The total cost for opening showroom displays is between \$5,000 and \$32,000. You may build the displays yourself or purchase some of them from us. Displays purchased from us will range from \$0 to \$10,000 of the total cost. The amount of warehouse inventory may vary according to your distance from us and/or distribution points and the size of the warehouse facility available to you.

### **Veteran's Discount**

We provide special financial incentives to qualified veterans who have been honorably discharged from the US Armed Forces. This discount applies to the initial purchase of a Closet & Storage Concepts business. We offer qualified franchise candidates a 25% reduction in the Initial Franchise Fee for their first Franchised Business. The applicable veteran must own 51% or more of the assets of the Franchised Business or of the business entity that is the Franchisee. We reserve the right to cancel or modify this program at any time.

## **ITEM 6 - OTHER FEES**

<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty	5% of Gross Revenues subject to a minimum of \$125 per week	Payable on each Monday via ACH for the week ending the immediately prior Saturday.	(See Note 1)
(NAP) National Advertising Program Contribution	\$300 per month - per store. Can be increased but will not exceed 2.5% of the previous calendar month's Gross Revenues.	Payable monthly with the first Royalty Fee payment of the month via ACH for the previous month.	(See Note 2)
Transfer of Franchise	50% of the then current Initial Franchise Fee, subject to a	Before transfer.	Either you or the transferee pays this fee to us.

	minimum of \$22,250		
Supplier Testing	Reimbursement of our costs of inspection and evaluation and costs for testing.	At time of testing and inspection.	This fee will be incurred only upon your request to use a supplier.
Renewal of Franchise Agreement	25% of the then current Initial Franchise Fee, subject to a minimum of \$11,125.	Upon signing the then-current franchise agreement(s).	You must give us written notice, not less than six (6) months; nor more than twelve (12) months before the expiration of the franchise agreement(s), pay the renewal fee and meet all conditions to obtain the renewal.
Audit	Cost of inspection or audit.	10 days after billing.	(See Note 3)
Insurance	Cost of Insurance  Cost of Review (up to \$500)	Upon invoice  Upon invoice	We may obtain the insurance if you fail to. You will pay the cost of the insurance premiums and a fee for our reasonable expenses.  If we designate a preferred insurance agent and you choose to use your own agent, your policy is subject to the review and approval of

			our designated agent and you must pay for the cost of that review.
Indemnification	Will vary under circumstances	As incurred	(See Note 4)
Bank Charges and Administrative Costs	Our then current fee (currently \$50 per occurrence).	Upon invoice	We may charge fees to cover bank charges and administration costs if an electronic funds transfer attempt is unsuccessful or you close your operating account, or any check or other payment is returned not paid.
De-Identify	Our costs	As incurred	If you don't de-identify your Franchised Business following expiration or termination of the Franchise Agreement, we may do so at your expense and charge you for our costs.
CAD Design Software Keys updates	Then-current cost (currently \$1,100-1,400 annually)	As incurred	Annual Service/Updates for the proprietary

			design software keys used in the Franchised Business. This fee is subject to change based on changes in operating requirements and changes in the software manufacturer's pricing.
Collection Costs, Attorney's Fees and Interest	Interest on overdue amounts from the due date until paid at the lesser of 18% interest per year or the highest lawful interest rate, costs of collection, attorneys' fees and court costs.	As incurred	See Note (5)
Management Fee	Our then-current fee (currently \$500 per day per person plus expenses if we have to temporarily manage your store.)	At time of provision of such services.	If for any reason we deem it necessary to have to come in and manage your outlet.
Additional Initial Training; Refresher courses; Supplemental Training; Conferences	Our then-current fee (currently \$300 per person, per day) plus all reasonable travel, room, board and living expenses	As incurred	If you require that we provide initial training to additional individuals; if we offer refresher courses; supplemental



	for you and your staff.		training programs, or conferences which may be optional or mandatory.
Operations Manual	\$0 for 1st copy. Additional copies are at our then current cost (currently \$300)	10 days after billing.	The fee is the same if we loan you any additional copies of the Operations Manual.
Cooperative Marketing	As determined by the members	As determined by the members	If a marketing cooperative is formed for your area you must join the cooperative. We will draft the amount you owe and pass it on to your respective cooperative.
Marketing Materials	Cost of production plus a 20% markup	As incurred	Payable if we decide to provide you with marketing materials.
Email Address/Mailbox	Our then-current fee (currently \$7-\$10 per month)	Monthly	Paid for use of email address/mailbox

General Note: All fees are imposed by and are payable to us. We reserve the right to collect any and all fees due to us or our affiliate arising out of or in relation to the Franchised Business through ACH. The fees and costs in this Item 6 may not be uniformly imposed. All fees are nonrefundable.

Note 1: “Gross Revenues” are defined in the Franchise Agreement to include the total gross revenue derived from the operation of the Franchised Business whether from sales for cash or credit, including sales of both franchise products and services, and including installation charges, exclusive of all sales taxes, use taxes, gross receipts taxes and other similar taxes added to the sales price and collected from the customer, and less any bona fide refunds, rebates, and discounts.

Gross Revenues are aggregated for multiple locations you operate within one granted Territory. If you fail to submit any weekly revenue report on a timely basis, we may estimate Gross Revenues and withdraw from your operating account the amounts estimated to be due which will be reconciled when the required reports are received.

Note 2: This contribution is paid to us for our National Advertising Program. (See Item 11). This fee may be changed but may not exceed 2.5% of the previous calendar month's Gross Revenues.

Note 3: You must maintain accurate business records, reports, accounts, books and data relating to the operation of your Franchised Business. We have the right to inspect and/or audit your business records during normal business hours. If any audit reveals that you have understated Gross Revenues by 2% or more, or if you have failed to submit reports and/or remittances for any 2 reporting periods or you do not make them available when requested, you must pay the reasonable cost of the audit, including the cost of auditors and attorneys, together with amounts due for royalty and other fees as a result of the understated Gross Revenues, including interest from the date when the Gross Revenues should have been reported.

Note 4: You must defend, indemnify and hold us and our related parties harmless from all fines, suits, proceedings, claims, demands, obligations or actions of any kind (including costs and reasonable attorneys' fees) arising from your ownership, operation or occupation of your business and premises, performance or breach of your obligations, breach of any representation or acts or omissions of you or your employees.

Note 5: If we engage an attorney to collect any unpaid amounts (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and collection expenses incurred by us. If you are in breach or default of any non-monetary material obligation and we engage an attorney to enforce our rights (whether or not formal judicial proceedings are initiated), you must pay all reasonable attorneys' fees, court costs and litigation expenses. If you institute any legal action to interpret or enforce the terms of the Franchise Agreement, and your claim in the action is denied or the action is dismissed, we may recover our reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against the same.

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## **ITEM 7 ESTIMATED INITIAL INVESTMENT**

### **YOUR ESTIMATED INITIAL INVESTMENT**

<b>Type of Expenditures</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment is to be Made</b>
Franchise Fee <sup>2</sup>	\$36,000 to \$44,500	Lump Sum	Upon Signing Franchise Agreement	Us
Travel and Living Expense While Training <sup>3</sup>	\$3,000 to \$5,000	As Agreed	During Training	Third Parties
Real Estate Improvements <sup>4</sup>	\$15,000 to \$35,000	As Agreed	Before Opening	Various Contractors
Office Equipment and Supplies <sup>5</sup>	\$1,000 to \$1,500	As Agreed	Before Opening	Third Parties
Computer Hardware and Software <sup>6</sup>	\$2,000 to \$2,400	As Agreed	Before Opening	Third Parties
CAD Design Software Keys <sup>7</sup>	\$2,700 to \$15,300	As Agreed	Before Opening	Us
Pallet Lifter and Fork Lift <sup>8</sup>	\$1,000 to \$10,000	As Agreed	Before Opening	Third Parties
Van <sup>9</sup>	\$1,600 to \$3,700	Lump Sum	Before Opening	Auto Dealer
Signs and Graphics <sup>10</sup>	\$2,000 to \$9,000	As Agreed	Before Opening	Third Parties
Opening Showroom Displays <sup>11</sup>	\$5,000 to \$32,000	Lump Sum	Upon delivery to your store, and receipt of invoice.	Us/Third Parties
Store Displays Accessories <sup>12</sup>	\$1,200 to \$2,500	As Incurred	Before Opening	Third Parties
Grand Opening Advertising <sup>13</sup>	\$10,000 to \$20,000	As Incurred	During the period beginning 30 days before and ending 30 days after Opening	Third Parties
Architect's Fee and Engineering <sup>14</sup>	\$0 to \$3,000	As Incurred	Before Opening	Third parties
Miscellaneous Opening Costs <sup>15</sup>	\$4,000 to \$6,000	As Incurred	Before Opening	Third parties
Insurance <sup>16</sup>	\$1,800 to \$5,000	As Incurred	Prior to Opening	Insurance Company

<b>Type of Expenditures</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment is to be Made</b>
Shop Equipment <sup>17</sup>	\$1,000 to \$350,000	As incurred	Before Opening	Approved Distributors
Opening Inventory <sup>18</sup>	\$1,000 to \$25,000	Lump Sum	Before Opening	Approved Distributors
Legal and Accounting <sup>19</sup>	\$2,000 to \$5,000	Lump Sum	As Incurred	Attorney and accountant
Additional Funds (up to 3 months) <sup>20</sup>	\$20,000 to \$50,000	As Incurred	As Agreed	Third Parties
<b>Total Estimated Initial Investment</b>	\$110,300 to \$624,900			

### Notes

1. All fees payable to us are non-refundable. A third party, to whom payment is made, may provide a different refund policy.
2. We describe the Initial Franchise Fee and any discount programs in Item 5. The low end is the Initial Fee for a Franchised Business beyond the initial location. The high end is the Initial Fee for an initial franchise. Veteran's discounts have not been applied. The initial franchise fee is non-refundable under any circumstances.
3. This is based upon three people attending a Pre-Opening Training Session held at our facilities, covering reasonable travel, food and hotel expense. Payments to employees, insurance, etc. are not included. The initial training itself is provided at no additional cost for up to three (3) people.
4. These estimates are for build-out and renovations necessary to comply with our standards for franchise layout and design. These build-out costs do not include maintenance, taxes or other expenses related to the Franchised Business premises. Building codes vary from jurisdiction to jurisdiction so you should consult with the governmental agency responsible for licensing and for applicable requirements regarding building requirements, architects plans and/or engineering to meet the codes of the jurisdiction you wish to build in.
5. These estimates are for office equipment, fax machine, phones, office supplies and cleaning supplies.
6. This is based on a low estimate for one computer system and software and a high estimate for two computers and two software licenses needed to operate two systems in your store. Items may be purchased or leased. Accounting software is included in this line item. Computer and Software Support are not included in this estimate.
7. This is based on the CAD Design Software Key(s) you must purchase from us. The low is for one Key and the high is for three keys. Payment is due upon your receipt of CAD Design Software Key(s).

8. You will need the equipment to move heavy pallets in your warehouse. Additionally, it will be necessary for you to have access to (rent, lease or purchase) either a floor mounted hydraulic lift or a forklift of some kind to aid you in removing pallets from an over-the-road truck. The funds stated should cover the lease or payment of a forklift and pallet mover for a minimum of 3 months.
9. These estimates are for securing a van (and optional trailer) for delivering products to customer's homes. We do not require you to purchase a trailer or multiple vans but you may choose to do so. The low range shown here covers the lease or payment expense for a base model van for a period of 3 months. The high range shows the cost for two vans, or for a van and a trailer. Any trailer or van used by you in the operation of your store must meet our quality and condition requirements, and meet our advertising requirements. You may not incur any vehicle costs if you already own or lease a suitable van or box truck.
10. These figures include your investment for: storefront signage, in-store graphic grids and plastic panels, panel style graphic displays, a beginning inventory of sales brochures, & vehicle and trailer graphics. This estimate does not include side or back of store signage, street, pylon or marquee signs, window lettering, or any other type of signage. Signage costs vary dramatically from location to location depending upon the signage you are allowed to utilize by local jurisdiction, landlord requirements, available space, type of vehicles you choose, size of store and other factors outside of our control.
11. This is for showroom displays and some warehouse inventory, which can be sold as regular/sellable inventory at the appropriate time. The amount of warehouse inventory may vary according to your distance from us and/or distribution points and the size of the warehouse facility available to you. You may choose to build the displays yourself or purchase them from us. If you construct the displays yourself you must still pay for the materials to construct the displays. Payment is due upon receipt at your store/warehouse location.
12. For the purchase of accessories, additional hardware, knobs, soft goods, and decorative vignette items.
13. During the period beginning 30 days before and ending 30 days after you open your location, you will place advertising intended to appeal to the general public. You are obligated to utilize our grand opening strategies and advertising materials to maximize the marketing message and correctly use our trademarks in your Territory.
14. The interpretation and enforcement of building codes varies substantially from jurisdiction to jurisdiction and although it is not common, you may have an architect/engineering fee as it may be necessary for you to have locally drawn architectural plans and/or structural, mechanical, electrical or HVAC engineering services performed to meet the codes of the jurisdiction in which you build. You should consult with the applicable governmental agency responsible for enforcement of building permit requirements.
15. Includes miscellaneous security deposits, utility costs, and corporation or business entity

formation fees.

16. This includes insurance deposit and payment for liability casualty insurance only.

17. The high end includes the equipment required for manufacturing of the products to be sold by your Franchised Business and its installation. The low end assumes that your Franchised Business will be a non-manufacturing franchise and equipment charges will be less.

18. This includes the initial hardware and accessories that must be on hand for retail sales. The high end assumes that you will be a manufacturing franchise and therefore your investment in raw materials will be greater.

19. These fees are representative of the costs for engagement of professionals such as attorneys and accountants for the initial review and advisories consistent with the start-up of a Franchised Business. We strongly recommend that you seek the assistance of professional advisors when evaluating this franchise opportunity, this disclosure document and the Franchise Agreement.

20. This figure is only an estimate for your initial three months of operating funds for monthly advertising expenses, employment costs, ongoing real estate expenses and other ongoing expenses of operating the Closet & Storage Concepts business. This is an estimate based on information obtained from our franchisees and our past experience operating stores similar to the one being franchised since 1989. This estimate does not include an owner's salary or draw or amounts owed to us for royalties and NAP contributions.

We do not offer financing for any part of the initial investment

## **ITEM 8 - RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

### **Required Purchases**

You must operate the Franchised Business according to the Closet & Storage Concepts System. The Closet & Storage Concepts System may regulate, among other things, the types, models and brands of required furnishings, equipment, signs, materials and supplies to be used in operating the Franchises Business, required or authorized products and product categories and designated or approved suppliers of the items (which may be limited to or include us or our affiliates). You are obligated to purchase all wood, brass, plastic, multiple and special hangers, shoe racks, tie & belt racks, garment racks, storage closets and other storage systems, specialty items and closet rods, lumber and particle board (melamine laminated), rod covers, rod cups, pole covers, CAD Design Software Keys and hardware and any other closet or storage system related accessories, hardware and fixtures from us, our affiliate or from a supplier or manufacturer approved by us. Under certain circumstances, we may allow you to purchase items from another franchisee or sell items to another franchisee, but our written permission is required. We reserve the right to name ourselves or our affiliate as the sole supplier of certain items. We are currently the only supplier of CAD Design Software Keys.

You must purchase all other products, goods, services, supplies, fixtures, equipment,

inventory, computer hardware and software or real estate relating to the establishment or operation of your Franchised Business from a supplier we designate. We may also designate preferred suppliers for products and services. The cost of equipment, products, goods, services, supplies and fixtures purchased in accordance with our specifications, from approved suppliers, including us, represents substantially all of your total purchases in establishing and operating your Franchised Business

You are free to use whatever vendor you would like for credit card processing services however, the vendor you choose must be compliant with the Payment Card Industry Data Security Standard (PCI DSS).

### **Required and Approved Suppliers**

If you operate a Closet & Storage Concepts business, you must purchase required equipment from approved suppliers or from us or our affiliate. Other than the manufacturing that we directly perform, we do not own any interest in any of our suppliers. Our affiliate, MSP Manufacturing is an approved supplier for the following items:

- Cabinet Components
- Murphy Bed Frames
- Hardware & Accessories
- Mattresses
- Closet Systems Components
- Decorative Doors and Drawer Fronts

We reserve the right to earn a profit from the sale of these items to our franchisees. Our officer, Robert Lewis, owns an interest in us and in our affiliate. None of our officers have an ownership interest in any other approved supplier.

### **Approval of Alternative Suppliers**

If you desire to purchase any product or item for which approval is required from a supplier that is not on our approved supplier list, you must request approval of the item or supplier in writing and we will evaluate the supplier and/or item for approval. Although we are not contractually bound to evaluate any supplier or item within a definite time period, we will make a good faith effort to evaluate the supplier or item and to notify you of approval or disapproval within 30 days from the date we receive your written request.

Before approving any supplier, we may take into consideration: a) consistency of products and/or name brands, b) economies of scale achieved by larger volumes, and c) certain other benefits that a particular supplier may offer, such as new product development capability. When approving a supplier, we take into consideration the System as a whole, which means that certain franchisees may pay higher prices than they could receive from another supplier that is not approved. We reserve the right to withhold approval of a supplier for any reason. We do not release our standards and specifications or criteria for supplier approval to System franchisees.

You may not purchase any item from any supplier for which approval is required until you have first received written notification of our approval. You must reimburse us for our reasonable costs of evaluating, inspecting and testing the proposed supplier or item, regardless of whether we approve the supplier or item.

We may withdraw our approval at any time if any supplier's performance does not meet our criteria, if we change our specifications, standards or requirements or for other reasons.

### **Revenue from Franchisee Purchases**

We and our affiliates may derive income or revenue from franchisee purchases. We and/or our affiliates have the right to receive payments from any supplier or distributor to you or to other franchisees within our franchise system and to use these monies without restriction and as we deem appropriate. In the 2022 fiscal year, we earned \$95,656 for sales of items to our franchisees, which accounted for 1.9% of our total revenues of \$5,034,526. Our affiliate, MSP Manufacturing had revenues of \$5,509,444 from sales to our franchisees. This was 87.1% of its total revenues. We did not receive any rebates or payments from approved suppliers that you are required to make purchases from.

### **Approved Location**

You must submit and we must approve the site for the location of your Franchised Business. The site must meet our criteria for demographic characteristics, traffic patterns, parking, character of neighborhood, competition from and proximity to other businesses and More Space Place or Closet & Storage Concepts locations, the nature of other businesses in proximity to the site and other commercial characteristics and the size, appearance and other physical characteristics of the proposed site. Any site selection assistance provided by us, does not relieve you of the primary responsibility to locate an acceptable site, as required.

We also must approve the lease or sublease for the premises of your Franchised Business before it is signed. We will not unreasonably or untimely withhold approval but can do so if the general business terms do not meet our standards. You must deliver a copy of the signed lease to us within 15 days after its execution. Our approval of the lease indicates only that we believe that its terms fall within the acceptable criteria we have established as of the time of our approval.

You must collaterally assign the lease or sublease for the franchise to us as security for your timely performance of all obligations under the Franchise Agreement and obtain the Lessors consent to the collateral assignment. A copy of the collateral assignment is attached as Exhibit "6" to the Closet & Storage Concepts Franchise Agreement.

### **Unit Development**

The Franchised Business must be constructed or remodeled in accordance with our specifications. You must purchase or lease and use only the furniture, fixtures, equipment and supplies as we may specify or approve. Our standards may regulate, among other things, the use



of certain plans, specifications, decor, designs, type of required fixtures, furnishings, equipment, signs, materials, products, and supplies to be used. The designs we furnish you with are for mandatory specifications and layouts for a Closet & Storage Concepts showroom. Except for those design changes that are approved in writing by us, you must follow these designs. Required purchases and leases according to our specifications and standards represent approximately 100% of your overall purchases and leases in connection with the establishment and operation of your Closet & Storage Concepts franchise. Although there may be extended payment terms for on-going purchases, payment for all new showroom furnishings is due upon delivery.

### **Standards and Specifications**

You must operate the Franchised Business according to our standards. Our standards and specifications may regulate required or authorized products, product categories, designated or approved suppliers (which may be limited to or include us or our affiliates), brands of required fixtures, furnishings, equipment, signs, materials, products, and supplies to be used which may impose minimum requirements for quality, cost, delivery, performance, design and appearance. We will notify you in our Operations Manual, or other communications, of our standards, specifications, modifications, and/or names of approved suppliers.

### **Insurance**

You must obtain and maintain, at your own expense, insurance coverage to adequately insure your Franchised Business that meets or exceeds any coverage which we require in the Operations Manual or otherwise, and which may periodically be adjusted. The cost of this coverage will vary depending on the insurance carrier's charges, terms of payment, and your history. You are responsible for providing and maintaining written documentation to us verifying all coverage. All insurance policies must contain a separate endorsement naming us and our affiliates as additional insureds using ISO form CG2029 or an equivalent endorsement (no blanket additional insured language is acceptable) and must be written by an insurance carrier accepted by us in writing. No insurance policy may be subject to cancellation, termination, non-renewal or material modification, except upon at least 30 days' prior written notice from the insurance carrier to us. Defense costs cannot erode policy limits. We may designate a preferred insurance agent. If we do, you will not be required to utilize our preferred insurance agent to procure your insurance however, any insurance obtained from another source will be subject to review and approval by our preferred insurance agent, at your cost.

If the lease for the Franchised Business' premises requires you to purchase insurance with higher limits than those required by us, the lease insurance requirements will control.

If you will be engaging in any construction, renovation or build-out of the premises for the Franchised Business, either you or your third party contractor must have in force for the duration of said project, Commercial General Liability insurance and Worker's Compensation and Employer's Liability insurance in the amounts listed above as well as Builder's Risk insurance in an amount approved by us.

We may obtain insurance coverage for your Franchised Business if you fail to do so, at your cost.

## **Advertising**

All advertising and promotion of your Franchised Business must conform to our specifications and standards and must be approved by us in advance. You must submit to us for our approval copies of all advertising and promotional materials including business cards, signs, displays and mailouts.

## **Purchasing or Distribution Cooperatives**

We do not have any purchasing or distribution cooperatives.

## **Negotiated Prices**

We negotiate purchase arrangements with some of our suppliers (including price terms and product allocations) for the benefit of System franchisees, but we are under no obligation to do so

## **Material Benefits**

We do not currently provide any material benefits to you if you buy from sources we approve, but we reserve the right to do so in the future.

## **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.**

<b>Obligation</b>	<b>Closet &amp; Storage Concepts Agreement</b>	<b>Disclosure Document</b>
a. Site selection and acquisition/lease	§1.3 & 4.2	Items 6, 7, 8 & 11
b. Pre-Opening purchases/leases	§§ 5.2 5.3 & 5.11	Items 7 & 8
c. Site development and other pre-Opening requirements	§§ 1.3, 4.1, 4.2 & 5.7	Items 6, 7, 8 & 11
d. Initial and ongoing training	§§ 4.3	Items 6, 7 & 11
e. Opening	§5.1	Items 7 & 11
f. Fees	§§ 2.3, 2.4, 3.1-3.15, 4.3 & 7.3.2	Items 5, 6 and 7
g. Compliance with standards and policies/Operations Manual	§§ 4.5, 5.2 & 5.3	Items 8 and 11
h. Trademarks and proprietary information	§§5.7 & 5.8	Items 13 & 14
i. Restrictions on products/services offered	§§ 5.2, 5.3, 5.11 & 5.12	Items 8 and 16
j. Warranty and customer service	§5.2 & 5.3	Item 11

requirements		
k. Territorial development and sales quotas	Not Applicable	Item 12
l. Ongoing product/service purchases	§§ 5.2, 5.3 & 5.11	Item 8
m. Maintenance, appearance and remodeling requirements	§§ 5.5	Items 6, 7 & 11
n. Insurance	§6.6	Items 6 7, & 8
o. Advertising	§3.4-3.9	Items 6, 7, 8, 11
p. Indemnification	§6.2	Items 6 & 7
q. Owner's participation, management and staffing	§§ 5.4	Items 11 & 15
r. Records and reports	§§ 3.12 & 3.13	Item 6
s. Inspections and audits	§§ 3.12, 5.9	Items 6 & 11
t. Transfer	Article 7	Item 17
u. Renewal	§§ 2.2-2.5	Item 17
v. Post-termination obligations	§§6.4 & 9.1	Item 17
w. Non-competition covenants	§6.4 & 9.1	Item 17
x. Dispute resolution	§11.2 & 11.3	Item 17
y. Guarantee of franchisee obligations	Exhibit 2	Item 1

### **ITEM 10 - FINANCING**

We do not offer either direct or indirect financing. We do not guarantee your note, lease or other obligation.

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

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

#### **Pre-Opening Assistance**

Before you open your Closet & Storage Concepts business, we will:

- 1) Designate your territory (Franchise Agreement - Section 1.4).
- 2) Assist with respect to selecting a showroom site (If you intend to conduct your business from a showroom) (Franchise Agreement – Section 1.3, 4.2)
- 3) Assist you in negotiating a lease for the showroom site which you have selected. The lease is subject to our approval or disapproval which generally shall be given within 30 days after you submit a written copy of the lease to us. You should consult with an attorney who is experienced in reviewing leases for commercial locations. We do not anticipate owning the premises, although we reserve the right to do so. (Franchise Agreement – Section 1.3)

- 4) Upon approval by us of the showroom site which you select, we will provide you with advice, guidance and general layout (but not construction) plans for the showroom. In constructing your showroom you must comply with all local building codes, ordinances and requirements and obtain all required building, health and sign permits and licenses. You pay all costs for construction or remodeling the showroom. (Franchise Agreement - Sections 4.1 and 4.2).
- 5) Provide you with a list of suppliers and written specifications for all equipment, goods, products and supplies you will need in connection with your franchise business and provide you with an opening inventory of franchise products, design layouts and supplies. We do not construct, remodel or decorate the showroom for you. We reserve the right to set maximum and minimum prices for products and services. (Franchise Agreement - Sections 1.05 and 4.01).
- 6) Provide you with mandatory and suggested written standards, specifications, procedures and techniques to assist you in operating your business and developing financial records, internal controls, personnel policies, production methods and approve sources of supply. This information shall be included in our confidential training and operations manual and any other manuals and written materials as we may develop in connection with the Franchised Business (the "Manual"). The Manuals supplied to you are confidential and remain our property. We may modify these Manuals, but a modification will not alter your status and rights under the franchise agreement. (Franchise Agreement - Section 4.01 (c)). Attached as Exhibit C to this Disclosure Document is the table of contents of our Closet & Storage Concepts confidential training and operations manual as of the date of this Disclosure Document.

### **Post-Opening Assistance**

During the operation of your Closet & Storage Concepts business, we will:

1. Occasionally conduct programs, seminars or conventions for the benefit of all franchisees. Upon notification by us of any program, seminar or convention, you must attend. These programs, seminars or conventions will be held at our New Jersey corporate headquarters or another location chosen by us. You must pay for all travel and lodging expenses for you and your employees to attend these programs, seminars or conventions plus our then-current fee. (Franchise Agreement - Section 4.3).
2. Make available to you all improvements and additions to the franchise. (Franchise Agreement - Section 5.10).
3. Counsel and assist you about the management and operation of your business. Franchise Agreement - Section 4.4).
4. From time to time purchase and place advertising promoting Closet & Storage Concepts franchisees and the franchise products and services sold by them at our sole discretion. We

may also provide advertising and promotional or informational materials to be used by franchisees. You will pay us for the cost of the materials furnished by us plus a mark-up of twenty-percent (20%) to cover our shipping and handling costs. The mark-up may result in a profit to us. We shall make all decisions whether to use national, Internet or local advertising or a combination of national, Internet or local advertising and all decisions regarding the selection of a particular advertising medium and content. We will pay for media costs, commissions and fees, production costs and other costs of advertising when it creates advertisement for all franchisees. (Franchise Agreement - Section 3.4).

5. As we deem necessary, offer additional training to you and your management and supervisory personnel, including your designated manager (if you decide to employ a designated manager) which may be optional or mandatory. (Franchise Agreement - Section 4.3).

### **Advertising**

We utilize in-store merchandising and point-of-purchase printed materials to promote Closet & Storage Concepts products and services in the franchise showroom. We do not currently utilize broadcast media such as television and radio for advertising but reserve the right to do so. However, we use public relations programs as we deem necessary or appropriate. Point-of-purchase marketing is done at the showroom level. We use national marketing service firms for the production of our marketing materials and public relations development.

### **National Advertising Program**

The National Advertising Program is administered for the common benefit of System franchisees. Under the Closet & Storage Concepts Franchise Agreement, we have the right to require you to contribute \$300 Three Hundred Dollars per month (which can be increased to no more than 2.5% of the previous calendar month's Gross Revenues) to the Closet & Storage Concepts NAP. (Section 3.5 of the Franchise Agreement).

All Franchisees will be required to contribute on the same basis. Our suppliers may be asked to contribute to the NAP on terms we negotiate. Neither we nor our affiliates have a contractual obligation to contribute to the NAP. We have the sole right to determine contributions and expenditures from the NAP, or any other advertising program, and sole authority to determine the selection of the advertising materials and programs. We are not required, under the Franchise Agreement, to spend any amount of NAP contributions in your Territory and not all System franchisees will benefit directly or on a pro rata basis from these expenditures. (Section 3.5 of the Franchise Agreement). NAP contributions may be used at our discretion for the following: the development, production and distribution of national and/or local advertising; the creation of advertising materials and public relations which, in our sole judgment, promote the products and services offered by System businesses including development and production of advertising and marketing programs and materials; purchase of media, field marketing programs and activities; promotions, new product research and development, quality control, mystery shopper programs which include call recording; market research; talent fees; working with public relations firms; website and social media development and maintenance; creating or maintaining a presence in

virtual worlds, and for administrative, travel, debt service and operating costs and overhead. Our decisions in all aspects related to the NAP will be final and binding. We may charge the NAP for the costs and overhead, if any, we incur in activities reasonably related to the creation and implementation of the NAP and the advertising and marketing programs for franchisees. These costs and overhead include: (i) the cost of preparing advertising campaigns and other public relations activities, (ii) the cost of employing advertising agencies, including fees to have print or broadcast advertising placed by an agency and all other advertising agency fees, and (iii) the proportionate compensation of our employees who devote time and render services in the conduct, formulation, development and production of advertising, marketing and promotion programs or who administer the NAP. (Section 3.5 of the Franchise Agreement).

We do not anticipate that any part of your contributions to the NAP will be used for advertising that is principally a solicitation for the sale of additional franchises, but we reserve the right to include a message or statement in any advertisement indicating that franchises are available for purchase and related information. (Section 3.5 of the Franchise Agreement). Your contribution to the NAP will be credited against your obligation for Local Advertising.

Although we anticipate that all NAP contributions will be spent in the fiscal year in which they accrue, any remaining amounts will be carried over for use during the next fiscal year. The NAP may spend more or less than the total NAP annual contributions in a given fiscal year and may borrow funds to cover deficits. If we terminate the NAP, we may choose to spend the funds in accordance with our then-current marketing policies or distribute funds to franchisees on a pro-rata basis. There is no requirement that the NAP be audited. Upon your written request, we will provide you with un-audited fiscal year-end financial statements and accountings of NAP expenditures. (Section 3.5 of the Franchise Agreement). We do not owe you any fiduciary obligation for administering the NAP. We may incorporate the NAP or operate it through a separate entity if we deem appropriate. We may maintain contributions to the NAP in a separate bank account or hold them in our general account and account for them separately

During the fiscal year ending December 31, 2022, the Closet & Storage Concepts NAP was not yet operative and no amounts were collected or spent.

We may also establish special promotional programs. You are required to participate in special promotional programs and you must pay your share of the cost of developing and implementing the program, including common development, design and advertising costs. You must participate in all rebate programs and must offer all discounts required by us. (Section 3.5 of the Franchise Agreement).

We do not make use of advertising cooperatives, nor do we require that you join one. We reserve the right to do so in the future. If we establish an advertising cooperative within a geographically defined local or regional marketing area in which your Franchised Business is located, you must participate and abide by any rules and procedures the cooperative adopts and we approve. You will contribute to your respective cooperative an amount determined by the cooperative. We will have the right to draft your bank account for the advertising cooperative contribution and to pass those funds on to your respective cooperative. Our affiliate owned locations will have no obligation to participate in any such advertising cooperatives. The

cooperative members will also be responsible for the administration of their respective advertising cooperative, as stated in the by-laws that we approve. The by-laws and governing agreements will be made available for review by the cooperative's franchisee members. We may require a cooperative to prepare annual or periodic financial statements for our review. Each cooperative will maintain its own funds; however, we have the right to review the cooperative's finances, if we so choose. Your Franchised Business may not benefit directly or proportionately to its contribution to the Cooperative. We reserve the right to approve all of a cooperative's marketing programs and advertising materials. On 30 days written notice to affected franchisees, we may terminate or suspend a cooperative's program or operations. We may form, change, dissolve or merge any advertising cooperative.

You must spend the greater of: (i) 7% of your monthly Gross Revenues or (ii) \$2,500.00 (Two Thousand Five Hundred Dollars), per month, on Local Advertising. The NAP will be deducted from and is not in addition to Local Advertising. If you operate more than one location in your Territory under a single Franchise Agreement, your Gross Revenues will be aggregated for the purpose of determining your Local Advertising requirement. You may develop advertising materials for your own use at your own cost. Unless you use advertising materials provided by us and follow our instructions using these advertising materials, you must obtain our approval in advance and in writing to use any advertising materials which you develop. You must use our website in any advertising program you develop. You will not be permitted to use either your own Internet domain name or your own website in your advertising program. You may not use any marketing, promotion, advertising or public relations materials that we have disapproved. (Franchise Agreement - Sections 3.9; See also Items 7 and 9 of this Disclosure Document for additional references to advertising.)

There is currently no advertising council in place for the System.

## **Websites**

You acknowledge and agree that any Website (including, but not limited to the Closet & Storage Concepts Website) constitutes "advertising" under our Franchise Agreement. Any Website you develop or utilize must meet all other terms and conditions for advertising described in our Agreement. For this purpose, a "Website" means interactive electronic documents, contained in a network of computers linked by communications software, that you operate or authorize others to operate that refers to your store, the Proprietary Marks, us, and the Closet & Storage Concepts system. The term Website also includes Internet, Intranet and World Wide Web home pages, or social networking sites (including, but not limited to, Facebook, Instagram, LinkedIn, Pinterest, Twitter) and any presence in virtual worlds. You must not establish any Website without our prior written approval of its form, content and information due to our substantial interest in protecting the Proprietary Marks, the System and the Confidential Information. We may require you to participate in a centralized Website operated by us, without any compensation to you. We may refuse to permit you to operate or establish any Website. We reserve the right to establish one or more Internet, Intranet or other forms of e-commerce Websites, networks or communities for the purposes of promoting the development, growth, sales and solicitation of franchises; our establishing or participating in, and requiring or authorizing your participation in, or in connection with e-commerce; establishing purchasing, supply or referral

programs, networks or communications in which you must participate; or monitoring your performance under our Agreement and other purposes we designate from time to time which we deem to promote the development and operation of the System. We will establish and notify you of our establishment of Website policies and other forms of e-commerce policies, which will become part of our System Standards and be provided in the Manual or other written communication to you. We own all right, title and interest in and to information compiled from, derived from or obtained by us via your or our use of Websites or our establishment of the Intranet, Internet or other forms of e-commerce networks or communities. Any websites and/or email addresses created by us in conjunction with the Closet & Storage Concepts trademark, advertising, promotion of our product and/or store locations belong to us. If we supply an e-mail address to you for your use, you must use it for all electronic Closet & Storage Concepts business transactions. We have full access to all communications sent and received using a Closet & Storage Concepts e-mail address. All domain names registered by us or by you in conjunction with the Closet & Storage Concepts trademarks belong to us.

### **Computer Requirements**

You must use a computer in the operation of your Closet & Storage Concepts business. You do not have to use a specific brand or type of hardware or software. Your computer system must have Internet access and e-mail capability including a functioning e-mail address for your business. So long as your computer system continues to work properly and have Internet access and e-mail capability, you will not have to upgrade or update your existing computer hardware or software.

We have developed and implemented into the franchise system a web-based software program for management of customer relations and related activities. You must use the software in the operation of your franchise business to input data regarding customer leads, average sales, closing percentages and related customer management information. We will have full independent access to this data and it may be shared with the System. There is no contractual limitation on our right to access this information and data. (Franchise Agreement - Section 5.14).

We currently require the use of Computer Aided Design (“CAD”) Software Keys to be purchased from us. The cost of the software is subject to change based on changes in software requirements and the software producer, and we presently estimate the costs at \$5,100 per Key. Annual Service/Updates for the CAD Software Keys range from approximately \$1,100 to \$1,400. The required additional computerized software for the Franchised Business must be purchased through an approved supplier and will range from \$2,000 to \$2,400.

In addition to any charges imposed by computer hardware and software vendors, we may charge you a reasonable systems fee for modifications and enhancements we or our vendors or representatives make to proprietary software and for other maintenance and support services that we may furnish to you. There is no contractual limitation on the frequency or cost of these required updates or upgrades. We may, but are not contractually obligated to, perform maintenance, repairs, updates or upgrades to your computerized system. We reserve the right to adopt new technology at any time, which may result in additional fees to you that are not currently known.

### **Operations Manual**



During the term of the franchise agreement, we will loan to you one copy of an operations manual, which may consist of one or more manuals and other written materials (collectively, the "Operations Manual" or "Manual") containing mandatory and suggested formats, specifications, standards, methods and procedures prescribed by us periodically. The table of contents of the Manual is disclosed as Exhibit C. The Manual currently contains 141 pages.

## **TRAINING PROGRAM**

### **TRAINING PROGRAM**

#### **Session 1 - Initial Training - Corporate Office: Sales/Design & Store Operations**

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<b>Introduction &amp; Product Overview</b> <ul style="list-style-type: none"> <li>• Industry History</li> <li>• Competition</li> <li>• Brand/System Distinction</li> <li>• Design &amp; Product Categories</li> </ul>	4	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)
<b>Design &amp; Sales</b> <ul style="list-style-type: none"> <li>• Overview of Design &amp; Sales Process</li> <li>• Role of the Designer/Salesperson</li> <li>• Measuring &amp; Assessing Customer Needs</li> <li>• Design Techniques &amp; Standards</li> <li>• Pricing of Jobs</li> <li>• Sales Process "The Sales Call"</li> <li>• Service Standards "The Customer Experience"</li> <li>• Building &amp; Maintaining Professional Partnerships</li> </ul>	16	12	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)
<b>CAD Design</b> <ul style="list-style-type: none"> <li>• Overview of CAD Program &amp; Library</li> <li>• Role of CAD Operator</li> <li>• Software &amp; Support</li> </ul>	1	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<b>Operations &amp; Administration</b> <ul style="list-style-type: none"> <li>• Operations Roles &amp; Responsibilities</li> <li>• Lead &amp; Job Scheduling Management (CRM System)</li> <li>• Employee Staffing &amp; Human Resources</li> <li>• Vendor Relations</li> </ul>	3	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)/Remote calls or webinars
<b>Marketing &amp; Advertising</b> <ul style="list-style-type: none"> <li>• Overview of Marketing Strategy</li> <li>• Role of the Marketing Department</li> <li>• Marketing &amp; Advertising Sources</li> <li>• Company Websites &amp; Social Media</li> <li>• Marketing Materials &amp; Signage</li> </ul>	4	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)/Remote Webinars

**Session 2 - Initial Training - Corporate Office - Manufacturing & Installation**

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<b>Product Manufacturing &amp; Installation</b> <ul style="list-style-type: none"> <li>• Overview of Manufacturing &amp; Installation Process</li> <li>• Role of the Production &amp; Installation Staff</li> <li>• Cut Lists &amp; Product Ordering</li> <li>• Equipment Operation &amp; Maintenance</li> <li>• Installation &amp; Delivery</li> <li>• Quality Control</li> <li>• Vendor Relations</li> <li>• Inventory Management</li> </ul>	16	16	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<b>Finance</b> <ul style="list-style-type: none"> <li>• Overview of Store Finance Structure</li> <li>• Quickbooks &amp; Chart of Account</li> <li>• Expense Control &amp; P/L Management</li> <li>• Benchmark Review</li> <li>• Royalty Reporting &amp; Payments</li> <li>• Cost of Goods</li> <li>• Accounts Receivable Management</li> </ul>	2	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)/Remote webinars
<b>Operations &amp; Administration</b> <ul style="list-style-type: none"> <li>• Business Management &amp; Reporting</li> </ul>	2	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)/Remote calls or webinars
<b>Wrap Up</b> <ul style="list-style-type: none"> <li>• Showroom Design</li> <li>• Shop/Equipment Layout</li> </ul>	4	0	Corporate Office (New Jersey) or Corporate Retail Store (Marlton, NJ)

### Session 3 - Initial Training - On Site - Manufacturing Setup

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<ul style="list-style-type: none"> <li>• Equipment Setup &amp; Testing</li> <li>• Manufacturing &amp; Installation Training Review</li> <li>• Oversight of Warehouse Set Up &amp; Inventory Organization</li> <li>• Support Ordering &amp; Installation of Showroom Displays</li> </ul>	20	20	At Franchise Location

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#### Session 4 - Initial Training - On Site - Sales & Design Field Training

<b>Subject</b>	<b>*Hours of Classroom Training</b>	<b>*Hours of On-the-Job Training</b>	<b>Location</b>
<ul style="list-style-type: none"> <li>• Showroom Layout &amp; Design</li> <li>• Sales &amp; Design Training Review</li> <li>• Field Training – Sales (leads) &amp; Design</li> </ul>	20	20	At Franchise Location

\*“On-the-job” or in-person “classroom” training hours may be converted to virtual training hours if we determine that in-person training is not advisable.

You (or your Operating Principal if you are an entity) and your designated manager (if employed) must attend and successfully complete to our satisfaction the Closet & Storage Concepts training course. If we determine that you and/or your designated manager are unable to successfully complete the training course, we have the right to terminate the Franchise Agreement. (Franchise Agreement - Section 4.4).

We do not charge for this training for up to the initial three (3) people. You must pay the travel and living expenses for you and your employees. The instructional materials consist of our Training and Operations Manual and demonstrations and practice. Initial training will be conducted by Dawn Smith, Gary Berthel, Tim Albert and Jason Friedley. Dawn has been our Director of Operations since 2007. Gary has been our National Production Training Manager since 2000. Tim has been our National Sales Training Manager since January, 2012. Jason has been the Director of Technology since 2011. Initial Training is provided on an as-needed basis but typically begins within 60 days of signing the Franchise Agreement. All training sessions begin at approximately 9 A.M. All training occurs at our New Jersey locations and/or at a Franchised Business location. We reserve our right to provide virtual training in lieu of in person training. (Franchise Agreement - Section 4.4).

The entire training program is subject to change due to updates in materials, methods, manuals and personnel without notice to you. The subjects and time periods allocated to the subjects actually taught to a specific franchisee and its personnel may vary based on the individual needs and/or experience of those persons being trained.

We reserve the right to offer refresher courses and supplemental training programs, which may be optional or mandatory, from time to time. You shall be responsible for the personal expenses, including transportation to and from the training site and lodging, meals, and salaries during training, for individuals attending any refresher or supplemental training. You shall pay our then-current tuition for any individual attending refresher courses or supplemental training. (Franchise Agreement - Section 4.4).

If we decide you are not ready to begin the management of your franchise, we may require you to complete refresher or supplemental training. We, at our sole discretion, may allow you to be excluded from certain portions of the training program based upon your ability which we may test by: a written or verbal testing of your knowledge about our systems, performing certain aspects of the operation of a unit, or based upon your experience. (Franchise Agreement - Section 4.4).

### **Site Selection Method**

If you intend to conduct your business from a showroom, you must select an acceptable site within your Territory within 120 days after you sign the Franchise Agreement. Your site must be at least 3,000 square feet in area. We generally will approve or disapprove of the site within 60 days after we receive notice of and information about the location. If we have not yet designated an accepted location for the Franchised Business when the Franchise Agreement is signed then you are responsible for locating a site within a specified geographic site selection area (the “Search Area”). The Search Area is delineated for the sole purpose of site selection and does not provide any territorial exclusivity or protection.

Neither our assistance in evaluating the site, nor our approval of the site are a guarantee or representation of the likelihood of success or profitability of your Closet & Storage Concepts business. In evaluating the site, you may inspect the site and may consider the lease obligations, population, demographic characteristics, traffic patterns, parking, character and attractiveness of the neighborhood, competing outlets and the proximity to those outlets, other Closet & Storage Concepts and More Space Place locations and other businesses. Our approval indicates that we believe that the particular site falls within its criteria at the time we conducted our evaluation.

You must independently evaluate and investigate the proposed site, observing customer traffic patterns near the location at different times of the day and on different days of the week and speaking with other tenants near the location under consideration. We must approve the site before you enter into lease negotiations. (Franchise Agreement – Section 1.3)

If you fail to obtain a site for the showroom which is acceptable to us in the time period required, we may terminate the Franchise Agreement (Franchise Agreement - Section 1.3)

### **Time to Opening**

You must complete the development of and open the Franchised Business by the earlier to occur of: (i) 120 days after the date of execution of the Business Location Agreement for the premises, or (ii) within 240 days after the date of the execution of the Franchise Agreement. In our sole discretion, we may grant you one extension of up to 120 days. We estimate that the length of time between signing the lease and the opening of the Franchised Business is about 90 to 120 days depending upon the amount of changes you request to be made to our designs and the amount of construction needed. The factors that affect this time are the ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages and delayed installation of equipment, fixtures and signs. You are responsible for providing us, and you may not open the franchise for business until: (1) we approve the location as developed according to

our specifications and standards; (2) pre-opening training has been completed to our satisfaction; (3) the initial franchise fee and all other amounts then due to us have been paid; (4) we have been furnished with copies of all required documents, including evidence of all applicable permits, insurance coverage and payment of premiums as we request; and (5) we issue written approval to open.

The time period for opening the business includes site selection and approval, site renovations and remodeling, permitting, training and set-up for operations.

## **ITEM 12 - TERRITORY**

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

You will receive a protected territory identified in the Franchise Agreement in which to operate your Closet & Storage Concepts business (the "Territory"). Our standard Territory consists of a population of 1 million people or more. The designation of a protected territory will vary from location to location and will depend upon population density, demographics, area, geographic size of counties or other governmental subdivisions in a particular trading area and proximity of competition. You are permitted to operate only one location in the Territory.

You are not permitted to operate your business at any location outside of the Territory. You are not permitted to establish additional locations in a contiguous territory. You will not be permitted to establish additional locations within your Territory without first obtaining our prior written consent. Before we will give this permission, we must determine that your Territory will support one or more additional locations. If we make this determination, you will have the right to establish an additional location under the procedures in the Franchise Agreement which you followed to establish your initial location.

If we independently determine that your Territory will support an additional location and the opening of this additional location is desirable, you will have a 30 day right of first refusal to open the additional location. If you decide to open the additional location, you must open the location within 3 months after you make your decision under the procedures in the Franchise Agreement which you followed to establish your initial location. If within the 30 day period you decide not to open the additional location or, after you make a decision to open, you fail to open the additional location within 3 months, we will have the right to offer the additional location in your Territory to another prospective franchisee or to operate a company business at the additional location. The Franchise Agreement, will apply to each additional location that you establish. For purposes of determining Royalty fee and Local Advertising payments, Gross Revenues from all of your locations within a single Territory will be aggregated.

Except where we make a determination that your Territory will support additional locations (for which you will have the right of first refusal), we will not (a) operate a Closet & Storage Concepts business, (b) solicit customers, (c) grant franchises to operate a business similar to yours using the Proprietary Marks or trade names or (d) permit other Closet & Storage Concepts

franchisees to solicit customers within your protected territory.

Although you are not restricted as to the customers you may serve at your location, you are not permitted to solicit customers or operate a business located outside your Territory.

Except as otherwise set forth above, we do not offer franchisees any option, right of first refusal or any similar right to acquire additional franchises within the Territory or contiguous territories.

As part of the process of renewing this Agreement, we reserve the right to re-evaluate the then-existing Territory according to certain demographics and our then-current standards. A re-evaluation of the Territory may result in the renewal Territory being smaller or larger than the original Territory.

### **Relocation Rights**

The Franchise Agreement grants you the right to operate one Closet & Storage Concepts business at the specific location identified in the Franchise Agreement or subsequently identified and mutually acceptable to both you and us. If the lease term is shorter than the term of the Franchise Agreement and the lease cannot be renewed or extended, or you cannot continue for any other reason to occupy the premises of the Franchised Business, you must relocate your Franchised Business to a site mutually acceptable to you and us in order to complete the balance of the term of the Franchise Agreement. You must give us notice of your intent to relocate, must procure a site acceptable to us within 60 days after closing the prior location, and must open the new location for business within 180 days of closing the previous one. We may or may not agree to such relocation based upon various criteria including but not limited to: area demographics, and estimated market demand and proximity to other Closet & Storage Concepts or More Space Place businesses. If you fail to comply with the relocation requirements, we may terminate the Franchise Agreement.

### **Rights We Retain**

You have no right to distribute any products or services offered by your Franchised Business through any alternate channels of distribution such as Internet, catalogs, telemarketing or direct marketing.

We and/or our affiliates reserve all other rights with respect to your Territory, which include but are not limited to: (i) the right to own, operate, franchise or license (whether in connection with a merger or acquisition or otherwise), businesses of any type operating under names other than the Proprietary Marks, regardless of whether or not these other concepts offer products and services which are similar to or competitive with those offered by your Franchised Business and the right to convert those locations to Franchised Businesses; (ii) the right to distribute products and services in alternative channels of distribution both within and outside the Territory, (which alternative channels of distribution includes but is not limited to: sales of products at or through club stores, specialty stores, in addition to sales of products by mail order, catalog, or via the internet, and any similar outlets or distribution methods); (iii) the right to be

acquired by (or merge or become affiliated with) any other business operating under names other than the Proprietary Marks, including a competing business, with locations anywhere, which may result in the required conversion of Franchised Businesses. We and our affiliates are under no obligation to pay you and compensation for selling similar products or services through other channels of distribution under the same and/or different proprietary marks within the Territory.

We and/or our affiliates retain the right to use and to license others to use the System for the operation and licensing of other Closet & Storage Concept businesses at any locations outside of the Territory.

We currently also grant franchises under the mark More Space Place® which is headquartered at our address. We currently operate one such location. More Space Place businesses sell and service our products and other products that utilize the concepts of vertical storage and space-saving and maximize multi-functional use of existing space to create spacious rooms. Your Territory and the territory of a More Space Place franchisee may overlap. We have no current plans to grant franchises under any other marks, but reserve our right to do so.

### **ITEM 13 TRADEMARKS**

If you purchase a Closet & Storage Concepts franchise, the following is a list of the principal trademarks that we currently license to you (the “Proprietary Marks”). The following principal Marks have been registered with the U.S. Patent and Trademark Office (“USPTO”) on the Principal Register. You may not sublicense any Mark without our permission. This list may not be an exhaustive list of all Marks owned by us or our affiliates.

<b>Mark</b>	<b>Registration Number</b>	<b>Registration Date</b>
Closet & Storage Concepts	2320421	February 22, 2000
Closet & Storage Concepts (plus design)	4271254	January 8, 2013
Conquer Closet Clutter	2295417	November 30, 1999
GETTING ORGANIZED IS ALWAYS IN STYLE!	5094072	December 6, 2016
GOT SPACE?	5493988	June 12, 2018
GOT SPACE?	5607582	November 13, 2018
MAKE ROOM FOR LIFE	4660379	December 23, 2014
INVISI-BORE	6266044	February 9, 2021

We also own and claim common law trademark rights in the trade dress used in your Franchised Business. Our common law trademark rights and trade dress are also included as part of the Proprietary Marks. All required affidavits and renewals pertaining to the Proprietary Marks have been filed. There are no agreements currently in effect that significantly limit our right to use or license the use of the Proprietary Marks in any manner material to the franchise.



There are no currently effective determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court involving the Proprietary Marks. We have entered into an agreement with Storage Concepts, Inc., an Omaha-based custom closet provider in which we have agreed to cease using the trademark Closet & Storage Concepts in the greater Omaha Nebraska area. However, this restriction is no longer enforceable in the event that Storage Concepts, Inc. (including any affiliates, subsidiaries, licensee, successors and assigns) has abandoned the Storage Concepts trademark within the meaning of the Lanham Act, 15 U.S.C. 1127.

Your rights to the Proprietary Marks are derived solely from your Franchise Agreement. You may have the right to potentially use future trademarks that we may subsequently license to you. You will only use the Proprietary Marks as we authorize. In using the Proprietary Marks, you must strictly follow our rules, standards, specifications, requirements and instructions which may be modified by us in our discretion. All goodwill associated with the Proprietary Marks remains our exclusive property. You cannot contest our ownership of the Proprietary Marks. You may not use the Proprietary Marks with any unauthorized product or service or in any way not explicitly authorized by the Franchise Agreement or that we may otherwise approve. When your Franchise Agreement expires or terminates, all rights for you to use the Proprietary Marks shall cease and you shall not maintain any rights to use any Proprietary Mark. You cannot use any other marks, names, commercial symbols or logo type in connection with the operation of the Franchised Business.

You cannot use the Proprietary Marks (or any variation of the Proprietary Marks) as part of a corporate name, domain name, homepage, email address, or on a website or with modifying words, designs or symbols except for those which we license to you. You may not use our registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by us. You may not apply for any trademark.

In the event of any infringement of, or challenge to, your use of any of the Proprietary Marks, you must immediately notify us, and we will have sole discretion to take such action as deemed appropriate. You must not communicate with any person other than your legal counsel, us and our legal representative in connection with any infringement challenge or claim. We will indemnify and hold you harmless from any suits, proceedings, demands, obligations, actions or claims, including costs and reasonable attorneys' fees, for any alleged infringement under federal or state trademark law arising solely from your conforming use of the Proprietary Marks in accordance with the Franchise Agreement or as otherwise set forth by us in writing, if you have notified us promptly of the claim. We reserve the right, under the Franchise Agreement, to substitute add or change the Proprietary Marks for use in identifying the System and the businesses operating under the System if the current Proprietary Marks no longer can be used, or if we, in our sole discretion, determine that a change Proprietary Marks will be beneficial to the System. If we change any of the Proprietary Marks, you must bear the cost and expense of all changes at your Approved Location (for example, changing signage, business cards, etc.).

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

We do not own any registered copyrights or patents which are material to the franchise,

but claim common law protection for many aspects of our business including, without limitation, our Operations Manual and other manuals, advertising and promotional material, and training materials and programs, proprietary computer software, architectural plans and designs, web sites and web pages, and other written material we develop to assist you in development or operations.

There are no currently effective determinations of the United States Copyright Office, the USPTO or any court, nor any pending litigation or other proceedings, regarding any copyrighted materials. We do not know of any superior prior rights or infringing uses that could materially affect your use of our copyrighted materials. We are not required by any agreement to protect or defend copyrights or to defend you against claims arising from your use of patented or copyrighted items or to participate in your defense or indemnify you.

You do not acquire any interest in our confidential information, other than the right to utilize it in the operation of your Franchised Business during the term of the Franchise Agreement. You may never during the Term, including any renewal, of the Franchise Agreement, or after the Franchise Agreement expires or is terminated, reveal any of our confidential information to another person or entity, or use our confidential information for the benefit of any other person or entity. You may not copy, record or otherwise reproduce any of our confidential information except as we may authorize. All employees must execute a Confidentiality Agreement in the form we require. Our current form of Confidentiality Agreement is attached as Exhibit 3 to the Franchise Agreement. Additionally, spouses of owners must execute the version entitled Confidentiality, Non Disclosure and Non-compete Agreement. All executed agreements must be forwarded to us to ensure compliance.

Any and all information, knowledge, know-how, techniques and data which we designate as confidential will be deemed confidential for purposes of your Franchise Agreement. Examples of confidential information include, without limitation: (1) design specifications; (2) methods, formats, specifications, standards, systems, procedures, sales and marketing techniques; (3) knowledge of specifications for and suppliers of, and methods of ordering, certain products, materials, equipment and supplies; (4) knowledge of the operating results and financial performance of us or our franchisees; (5) the Operations Manual; (6) training materials and programs; (7) customer data; (8) all password-protected portions of our website, intranets and extranets and the information they contain (including the email addresses of our franchisees); and (9) specifics regarding the inner workings of computer software, applications or other technology used by our System.

All data that you collect from customers of the Franchise Business or through marketing is deemed to be owned exclusively by us and/or our affiliates. You must install and maintain security measures and devices necessary to protect the customer data from unauthorized access or disclosure, and you may not sell or disclose to anyone else any personal or aggregated information concerning any customers. You have the right to use the customer data only in connection with your Franchised Business, while the Franchise Agreement is in effect. If you transfer the Franchised Business to a new owner, who will continue to operate it under an agreement with us, you may transfer the customer data to the new owner as part of the going concern value of the business.

All new products, items, services and other developments, whether they be of our original design or variations of existing services or techniques or your or your employee's original design or variations of existing services or techniques, will be deemed works made for hire and we will own all rights in them. If they do not qualify as works made for hire, you will assign ownership to us under the Franchise Agreement. You will not receive any payment or adjustment in connection with any new products, items, services or developments.

We will own all business records with respect to customers of your Franchised Business, including any databases (whether in print, electronic or other form), including all names, addresses, telephone numbers, e-mail addresses, customer purchase records, and all other similar records that you create and maintain in connection with the operation of your Franchised Business. At all times during and after the termination or expiration of your franchise agreement, we may access such business records and may utilize, transfer or analyze such records as we determine, in our sole discretion, to be in the best interest of the System.

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

We strongly recommend that you personally participate in the operation of your Franchised Business. The Franchised Business must be operated by either yourself (if an individual), one of your principal owners (if you are an entity) or a designated manager. Both the franchisee and the designated manager must satisfactorily attend and complete our training program. Personal attention by you and/or the designated manager is critical to the success of your Franchised Business. Your designated manager need not have any equity interest in the franchise. Either you or your designated manager must furnish full-time attention and best efforts to the management of the Franchised Business and personally supervise the Franchised Business.

You may not change or otherwise replace the designated manager of your Franchised Business without our prior written approval. If your relationship with your designated manager terminates or materially changes, you will be required to promptly designate a new designated manager. Any replacement designated manager is subject to our prior written approval, and he or she must successfully complete our initial training program before being responsible for the day to day management of your Franchised Business. You must pay the charges that we establish for training programs furnished to any individual who replaces a previously trained designated manager.

You will disclose to your designated manager only the information needed to operate the Franchised Business and the designated manager will be advised that any confidential information is our trade secret.

In addition, your designated manager and all employees will be required to execute our Confidentiality Agreement. Our current form of Confidentiality Agreement is attached as Exhibit 3 to the Franchise Agreement. Spouses of owners must execute the version entitled Confidentiality, Non-Disclosure and Non-compete Agreement. Executed copies must be forwarded to us to ensure compliance.

If you are an entity, you must be a single purpose entity and you cannot operate any other business using your entity name.

In the event we must operate the Franchised Business in order to prevent an interruption in operation due to your (or your Principal's) death or disability, or if we determine that you are otherwise unable to adequately operate the Franchised Business, we have the right to step in and manage your business for as long as we deem necessary and you must pay our then-current management fee. In addition, you will also be required to pay our expenses and other fees in managing the Franchised Business, plus regular fees owed, such as royalties. You must hold us and our representatives harmless for all actions occurring during the course of such temporary operation. You must pay all of our reasonable attorneys' fees and costs incurred.

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

Your franchise is limited to one location. We require you to limit your business to the operation of the Franchised Business at the location we approve (the "Approved Location"). You may not conduct any other business or activity at the Approved Location without our prior written permission. You may only sell products at retail and may not engage in the wholesale sale or distribution of any product. You are not permitted to sell or distribute any products at any location other than your Approved Location, or through the use of the Internet or any other channel of distribution,

You may only offer or sell products and services that are approved by us and must offer for sale certain products and services as designated by us. We may add, delete or alter approved products and services that you are required or allowed to offer in our reasonable discretion. There are no limits on our right to do so. You must discontinue selling and offering any products, services or items that we, in our sole discretion, disapprove in writing at any time. On a case-by-case basis, we may allow you or other franchisees to offer additional services, products or programs that are not otherwise part of the franchise System. We will decide which franchisees can offer additional services and products based on test marketing, the franchisees' qualifications and operational history, differences in regional or local markets and other factors.

We have the right to set restrictions on the pricing of all products and services that are sold or distributed.

In offering products for sale, you may only use products, materials, supplies, uniforms, fixtures, furnishings, signs and equipment approved by us and must follow exact methods of product preparation and installation that meet our requirements. You may not deviate from our requirements, standards or specifications without our prior written consent. You cannot create unapproved rewards or loyalty programs.

#### **ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

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

## THE FRANCHISE RELATIONSHIP

	Provision	Section in Franchise Agreement	Summary
a.	Term of franchise	2.1	10 years
b.	Renewal or extension of the term	2.2	If you are not in default under the franchise agreement and you notify us not less than six (6) months; nor more than twelve (12) months before the expiration of the franchise agreement(s), pay the renewal fee and meet all conditions to obtain the renewal before expiration you can renew the term for an additional 10 years.
c.	Requirements for you to renew or extend	2.2	Have satisfied all monetary obligations, sign a new franchise agreement which may contain materially different terms and conditions than your original agreement; pay fee, remodel; obtain necessary licenses; execute a release and renew lease or sign a new lease.
d.	Termination by you	8.1	You must give us 90 days written notice to cure any default within 60 days of the event or circumstances giving rise to the breach. You must be in material compliance. If we fail to cure any material breach within the 90 day cure period, you may terminate for that reason by written notice, except if the breach is not susceptible to cure within 90 days, but we take action within 90 days to begin curing the breach and acts diligently to complete the corrective action within a reasonable time, we will be deemed to have timely cured the breach.
e.	Termination by Franchisor without cause	No provision	Not applicable
f.	Termination by Franchisor with cause	8.2	We have the right to terminate the Franchise Agreement with cause. Depending upon the reason, we do not have to provide you an opportunity to cure. See this Item 17(g) and (h) for further description.
g.	Cause defined – default which can be cured	8.2.1	We have the right to terminate the Franchise Agreement, (i) after a 7 day cure period if your failure to comply with the Franchise Agreement relates to the Proprietary Marks; (ii) after a 15-day cure period upon your failure to pay any sums owed to us or our affiliate; or (iii) after a 30 day cure period upon your failure to pay any sums owed to a third party other than

	Provision	Section in Franchise Agreement	Summary
			us or our affiliates or upon your failure to comply with any other provision not listed above or listed below as a non-curable default, except if the breach is not susceptible to cure within the applicable cure period, but you take action within the cure period to begin curing the breach and act diligently to complete the corrective action within a reasonable time, you will be deemed to have timely cured the breach.
h.	Cause defined – default which cannot be cured	8.2.2	We have the right to terminate the Franchise Agreement without providing you an opportunity to cure if: (i) you or your owners commit any criminal acts involving moral turpitude or which may affect the reputation of the Franchised Business, or goodwill of the Proprietary Marks; (ii) you or your owners are convicted or plea of guilty or nolo contendere of a felony; (iii) you or your owners commit fraud in the operation of your Franchised Business; (iv) you or your owners misrepresent yourself in any way (including through omission of information) in connection with your franchise application; (v) you or your owners file for bankruptcy or are adjudicated a bankrupt; (vi) insolvency proceedings are commenced against you; (vii) you are the subject of a lien; (viii) you become insolvent; (ix) you or your principals materially breach any other agreements with us or our affiliates; (x) we send you 3 or more written notices to cure within a 12-month period; (xi) you intentionally underreport or misstate any information required to be reported to us; (xii) you voluntarily or otherwise abandon the Franchised Business; (xiii) you fail to open the Franchised Business or open without receiving authorization; (xiv) you lose the right to occupy the Premises of your Approved Location as a result of a breach of your lease agreement; (xv) unauthorized use of Confidential Information by you or your owners or spouses (xvi) you fail to maintain insurance; (xvii) any unauthorized transfer; (xviii) you create or fail to correct a threat or danger to public health or safety (xix) violation of in-term covenants not to compete by you, your owners or any spouses.

i.	Your obligations on	9.1	You must cease operation of the Franchised
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	termination/non-renewal		Business, pay all unpaid fees, discontinue using the Proprietary Marks, return the Operations Manual and all other confidential information, transfer your business telephone numbers to us or our designee, surrender all stationery, printed matter, signs, advertising materials and other items containing the Proprietary Marks and all items which are part of the System trade dress, sell to us any furnishings, equipment, signs or fixtures which we elect to purchase, and, at our option, assign to us any interest you have in the lease or sublease for the Franchised Business's premises or, in the event we do not elect to exercise our option to acquire the lease, modify or alter the Franchised Business's premises as may be necessary to distinguish it from a Closet & Storage Concepts outlet under the System; assign us all customer contracts and deposit monies; cease to hold yourself out as a franchisee; cancel any assumed names containing the Proprietary Marks; permit final inspection of books and records; comply with post termination restrictive covenants.
j.	Assignment of contract by Franchisor	7.6	We have the unrestricted right to sell, transfer, assign and/or encumber all or any part of our interest in the Franchise Agreement or ourselves.
k.	"Transfer" by you – definition	7.3	A sale, transfer or assignment is deemed to occur if: (i) you are a corporation or limited liability company, upon any assignment, sale, pledge or transfer or increase of your voting stock; any increase in the number of outstanding voting shares which result in a change of ownership; or (ii) if you are a partnership, upon the assignment, sale, pledge or transfer of any partnership ownership interest.
l.	Franchisor's approval of transfer by franchisee	7.1	You may not sell, transfer, assign or encumber your interest in the Franchised Business or your rights under the Franchise Agreement without our prior written consent.
m.	Condition for Franchisor's approval of transfer	7.3.2	Approval to sell or transfer your franchise may be conditioned upon the following: (i) satisfaction of all monetary obligations to us, our affiliates, or suppliers; (ii) the timely cure of all existing defaults under the Franchise Agreement; (iii) execution of a general release; (iv) execute Consent to Transfer and (v) providing us with a copy of the executed purchase agreement relating to the proposed transfer. The proposed transferee must have

			demonstrated to us that he or she meets our standards, possesses good moral character, business reputation and credit rating, has the aptitude to operate the Franchised Business and has adequate financial resources to conduct the business. The transferee must have executed our then-current Franchise Agreement, you or the transferee have paid to us the transfer fee, and the transferee and its designated manager must have completed our initial training program. You must adhere to all post termination covenants.
n.	Franchisor's right of first refusal to acquire your business	7.3.1	If you propose to transfer or assign any of your interest in the Franchise Agreement or the Franchised Business to a third party, you must first offer us the option to purchase your franchise upon the same terms as those offered by the third party.
o.	Franchisor's option to purchase your business	9.1.7	If the franchise is terminated we have the option to purchase from you all or any part of your inventory of genuine franchise products as we shall decide at the current price being charged by us for such products less reasonable allowance for restoration, obsolescence or deterioration.
p.	Your death or disability	7.2	If you die or become disabled or incapacitated, your executor, heir or legal representative must obtain approval to continue as the franchisee within 180 days from the date of your death, disability or incapacity.
q.	Non-competition covenants during the term of the franchise	6.4.1	Neither you nor your partners, shareholders, members or managers, may have any interest in any other business which principally offers or sells the products and/or services offered by Closet & Storage Concepts or More Space Place locations (a "Competing Business").
r.	Non-competition covenants after the franchise is terminated or expires	6.4.2	<p>The Franchise Agreement limits your right and the rights of your partners, shareholders, members, and managers, for 2 years following the date of the expiration and non-renewal, transfer or termination of the Franchise Agreement:</p> <p>(i) to own, engage in, be employed or have any interest in any Competing Business inside the Territory; within 20 miles of the Territory, or within 20 miles of other Closet &amp; Storage Concepts and More Space Place Territories;</p> <p>(ii) to solicit business from former customers of your Franchised Business for any competitive</p>



			business purpose or to solicit employees of us, our affiliates or other System franchisees; or (iii) to own, maintain, engage in, be employed by, or have any interest in any company which grants franchises or licenses for any business competing with us.
s.	Modification of this agreement	11.1	The Franchise Agreement may only be modified by written amendment signed by both parties.
t.	Integration/merger clauses	11.1	The Franchise Agreement is the entire agreement between the parties (subject to state law). Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, any other exhibits or amendments.
u.	Dispute resolution by arbitration or mediation	No provision	Not applicable
v.	Choice of forum	11.2	All actions must be commenced in the Courts of then-current State and County where our corporate headquarters is located (currently Camden County, New Jersey, or the United States District Court, District of New Jersey) (subject to applicable state law)
w.	Choice of law	11.2	New Jersey law applies (subject to applicable state law).

### **ITEM 18 PUBLIC FIGURES**

We do not use any public figure to promote 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 this 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.

#### **Section 1. Background**

As of December 31, 2022, there were twelve Closet & Storage Concepts locations operating in the United States. Of these twelve locations, four were company owned and eight were franchisee owned. Of the eight franchisee owned locations, five met these criteria to be considered representative of the franchise offered:

- a. Open for at least 1 year as of December 31, 2022;
- b. Located in a market containing at least 1 million people;
- c. Operating for the full 12 months of 2022;
- d. Operating from a dedicated retail showroom location staffed full time

## **Section 1. 2022 Gross Revenue**

### **Franchised Locations**

This section represents the revenue results of five representative franchised Closet & Storage Concepts locations operating as of December 31, 2022. The characteristics that make them representative are described above.

Each of the five representative franchised locations was asked to provide information regarding Gross Revenues for the years 2022 and 2021. Each of the five representative franchised locations (100%) provided complete gross sales information. The data presented in Table 1 below represents the Gross Revenue performance of those five (5) franchised locations based on their response to the survey described above. The survey requested Gross Revenue on completed jobs and installation charges. Gross Revenue does not include work in progress or any deposits received on orders.

<b>Table 1 Gross Revenues- Franchise Locations Open More Than One Year</b>	<b>2022</b>	<b>2021</b>
Number of Franchised Locations	5	5
Average Gross Revenue	\$2,863,694	\$2,646,183
Highest Gross Revenue	\$3,515,697	\$3,314,578
Lowest Gross Revenue	\$2,368,000	\$2,173,633
Median Gross Revenue	\$2,882,265	\$2,245,767

During the year ended December 31, 2022 three (60%) of the five (5) franchised locations exceeded the average Gross Revenue of \$2,863,694. During the year ended December 31, 2021 two (40%) of the five (5) franchised locations open for more than one year exceeded the average Gross Revenue of \$2,646,183.

## **Section 2. Key Performance Indicators**

## Franchised Locations

This section represents certain key performance indicators of five (5) representative franchised Closet & Storage Concepts locations operating as of December 31, 2022. Each of our representative franchised locations was asked to provide information regarding certain key performance indicators for the years 2022 and 2021. All of the five (5) representative franchised locations (100%) provided all of the information requested. The data presented in Tables 2 through 11 below represent the performance of those five (5) franchised locations based on their response to the survey described above.

<b>Table 2 Cost of Goods Sold</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Cost of Goods Sold	\$729,766	\$772,747
Highest Cost of Goods Sold	\$1,064,136	\$1,202,044
Lowest Cost of Goods Sold	\$531,514	\$439,499
Median Cost of Goods Sold	\$623,420	\$771,362

<b>Table 3 Cost of Goods Sold as a Percentage of Gross Revenue</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Cost of Goods Sold Percentage	25.5%	29.2%
Highest Cost of Goods Sold Percentage	37.0%	36.3%
Lowest Cost of Goods Sold Percentage	17.5%	19.6%
Median Cost of Goods Sold Percentage	22.0%	27.9%

<b>Table 4 Advertising Spending</b>	<b>2022</b>	<b>2021</b>
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Number of Locations	5	5
Average Advertising Spending	\$47,309	\$49,252
Highest Advertising Spending	\$74,610	\$78,120
Lowest Advertising Spending	\$34,614	\$31,131
Median Advertising Spending	\$42,017	\$42,643

<b>Table 5</b> <b>Return on Advertising</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Return on Advertising	\$60.53	\$53.67
Highest Return on Advertising	\$86.01	\$106.47
Lowest Return on Advertising	\$38.63	\$27.82
Median Return on Advertising	\$72.51	\$44.99

<b>Table 6</b> <b>Rent Expense</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Rent Expense	\$86,183	\$78,359
Highest Rent Expense	\$145,247	\$111,981
Lowest Rent Expense	\$38,725	\$52,985
Median Rent Expense	\$83,001	\$81,647

<b>Table 7</b> <b>Payroll Expense</b>	<b>2022</b>	<b>2021</b>
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Number of Locations	5	5
Average Payroll Expense	\$900,547	\$844,039
Highest Payroll Expense	\$1,212,247	\$995,296
Lowest Payroll Expense	\$520,000	\$732,250
Median Payroll Expense	\$907,121	\$838,491

<b>Table 8</b> <b>Payroll Expense as a</b> <b>Percentage of Gross Revenue</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Payroll Expense Percentage	31.4%	31.9%
Highest Payroll Expense Percentage	42.1%	45.8%
Lowest Payroll Expense Percentage	22.0%	25.6%
Median Payroll Expense Percentage	32.0%	33.0%

<b>Table 9</b> <b>Staffing Levels</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Staffing (number of employees)		
Installers	5.6	5.8
Sales/Designers	3.0	3.6
Administrative	2.8	2.5
Shop	3.6	3.6
Total Staff Count	15.0	15.5
Highest Total Staff Count	18.5	23.5
Lowest Total Staff Count	9.5	11.0
Median Total Staff Count	15.0	13.0

<b>Table 10 Gross Revenue per Installer</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Gross Revenue per Installer	\$ 511,374	\$ 456,238
Highest Gross Revenue per Installer	\$627,454	\$561,442
Lowest Gross Revenue per Installer	\$439,462	\$310,519
Median Gross Revenue per Installer	\$507,115	\$546,341

<b>Table 11 Gross Revenue per Sales Designer</b>	<b>2022</b>	<b>2021</b>
Number of Locations	5	5
Average Gross Revenue per Sales Designer	\$954,465	\$735,051
Highest Gross Revenue per Sales Designer	\$1,184,000	\$1,122,884
Lowest Gross Revenue per Sales Designer	\$836,606	\$362,272
Median Gross Revenue per Sales Designer	\$960,755	\$828,645

### **Notes to Tables 1 through 11**

1. “Gross Revenue” includes the total gross revenue derived by a franchisee from the operation of the Franchised Business whether from sales for cash or credit, including sales of both franchise products and services, and including installation charges, exclusive of all sales taxes, use taxes, gross receipts taxes and other similar taxes added to the sales price and collected from the customer, and less any bona fide refunds, rebates, and discounts.
2. Cost of Goods Sold represents the cost of raw materials and completed products, including applicable inbound freight costs and taxes, used in the production and installation of the products sold and represented by Gross Revenues.
3. Cost of Goods Sold as a Percentage of Gross Sales is the mathematical result of dividing Cost of Goods Sold by Gross Revenue.
4. Advertising Spending represents amounts spent for digital advertising as well as print and

media advertising to promote the business.

5. Return on Advertising is a measurement of advertising effectiveness. Return on Advertising is the mathematical result of dividing Gross Revenue by Advertising Spending.

6. Rent Expense represents the amount paid for showroom, shop, and storage space including taxes and common area maintenance charges paid to landlords.

7. Payroll Expense represents salary and wage amounts paid to all employees. Owner compensation is not included.

8. Payroll Expense as a Percentage of Gross Revenue is the mathematical result of dividing Payroll Expense by Gross Revenue. Not all Payroll Expense is directly variable with Gross Revenue.

9. Staffing Levels represent the full-time equivalent headcount for each of the listed functions. Owners are included in Staffing Levels.

a. Installers are defined as the individuals who deliver the product to the customer and install the product in the customer's home. Installers are generally paid hourly.

b. Sales Designers are the individuals who initially interact with the customer, determine their needs and tastes, design and sell the product to the customer. Sales Designers are generally paid on a salary plus commission basis.

c. Administrative Employees include office staff, bookkeepers, office managers, and management if applicable. Administrative Employees are generally paid on either an hourly or a salary basis, depending on their responsibilities.

d. Shop employees operate machine equipment and produce the components of the product. Shop employees are generally paid hourly.

10. Gross Revenue per Installer is a measure of installer productivity and effective staffing levels. Gross Revenue per Installer is the mathematical result of dividing Gross Revenue by the number of Installers.

11. Gross Revenue per Sales Designer is a measure of Sales Designer effectiveness and staffing levels. Gross Revenue per Sales Designer is the mathematical result of dividing Gross Revenue by the number of Sales Designers

### **Section 3. Year over Year Gross Revenues**

Table 12 below represents 2022 Gross Revenues compared to 2021 and 2020 Gross Revenues for the group of five (5) representative franchised locations.

<b>Table 12 Gross Revenues</b>	<b>2022</b>	<b>2021</b>	<b>Percentage Increase 2022 vs 2021</b>	<b>2020</b>	<b>Percentage Increase 2021 vs 2020</b>
Number of Locations	5	5		5	
Location 1	\$2,368,000	\$2,218,893	6.7%	\$1,772,872	33.9%
Location 2	\$3,042,689	\$3,314,548	-8.2%	\$2,458,309	30.5%
Location 3	\$2,882,265	\$2,173,633	32.6%	\$1,401,903	63.4%
Location 4	\$2,509,818	\$2,245,767	11.8%	\$1,592,231	-15.0%
Location 5	\$3,515,697	\$3,278,044	7.2%	\$2,823,327	70.1%
Average Gross Revenue	\$2,863,694	\$2,646,188	8.2%	\$2,009,728	32.2%
Highest Gross Revenue	\$3,314,578	\$3,314,578	17.4%	\$2,823,327	49.8%
Lowest Gross Revenue	\$2,173,633	\$2,173,633	55.1%	\$1,401,903	63.4%
Median Gross Revenue	\$2,245,787	\$2,245,787	26.7%	\$1,772,872	6.8%

**Some outlets have earned this amount. Your individual results may differ. There is no assurance that you'll earn as much.**

The information presented in this Item 19 is unaudited.

Written substantiation for the representations in this Item 19 will be made available to a prospective franchisee upon reasonable request.

Other than the preceding financial performance representation, Closets Unlimited of New Jersey, Inc. does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Robert Lewis, 436 Commerce Lane, Suite D, West Berlin, NJ 08091, (856) 627-5700, the Federal Trade Commission and the appropriate state regulatory agencies.



## **ITEM 20 OUTLETS AND FRANCHISEE INFORMATION**

**TABLE 1**  
**Systemwide Outlet Summary for Fiscal Years Ended December 31, 2020,**  
**December 31, 2021 & December 31, 2022**

CLOSET & STORAGE CONCEPTS				
Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
FRANCHISED	2020	11	10	+1
	2021	10	9	-1
	2022	9	8	-1
COMPANY-OWNED	2020	3	3	0
	2021	3	3	0
	2022	3	4	+1
TOTAL OUTLETS	2020	14	13	-1
	2021	13	12	-1
	2022	12	12	0

**TABLE 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**  
**for Fiscal Years Ended December 31, 2020, December 31, 2021 & December 31, 2022**

CLOSET & STORAGE CONCEPTS		
State	Fiscal Year	Number of Transfers
ALL STATES	2020	0
	2021	0
	2022	0
TOTAL	2020	0
	2021	0
	2022	0

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**TABLE 3**  
**Status of Franchised Outlets (other than the Franchisor)**  
**for Fiscal Years Ended December 31, 2019, December 31, 2020 & December 31, 2021**

<b>CLOSET &amp; STORAGE CONCEPTS</b>								
<b>State</b>	<b>Year</b>	<b>Outlets at Start of Year</b>	<b>Outlets Opened</b>	<b>Terminations</b>	<b>Non- Renewals</b>	<b>Reacquired by Franchisor</b>	<b>Ceased Operations -Other Reasons</b>	<b>Outlets At End Of the Year</b>
ARIZONA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
CALIFORNIA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
COLORADO	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
CONNECTICUT	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
MASSACHUSETTS	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
MINNESOTA	2020	1	0	0	0	0	1	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
NEBRASKA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	1	0
	2022	0	0	0	0	0	0	0
NEVADA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
NEW JERSEY	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
NORTH CAROLINA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
PENNSYLVANIA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	1	0	0
TOTALS	2020	11	0	0	0	0	1	10
	2021	10	0	0	0	0	1	9
	2022	9	0	0	0	1	0	8

**TABLE 4**

**Status of Company-Owned Outlets for Fiscal Years Ended December 31, 2020,  
December 31, 2021 & December 31, 2022**

<b>CLOSET &amp; STORAGE CONCEPTS</b>								
<b>State</b>	<b>Year</b>	<b>Outlets at Start of Fiscal Year</b>	<b>Outlets Opened</b>	<b>Terminations</b>	<b>Non- Renewals</b>	<b>Reacquired by Franchisor</b>	<b>Ceased Operations -Other Reasons</b>	<b>Outlets At End Of the Year</b>
NEW JERSEY	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
PENNSYLVANIA	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	1	0	2
TOTALS	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	1	0	4

**TABLE 5**  
**Projected New Franchised Outlets as of December 31, 2022**

<b>CLOSET &amp; STORAGE CONCEPTS</b>			
<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>State</b>	<b>Franchise Agreements Signed But Outlet Not Open</b>	<b>Projected New Franchised Outlet In The Next Fiscal Year</b>	<b>Projected New Company Owned Outlet In The Next Fiscal Year</b>
PENNSYLVANIA	0	1	0
TOTALS	0	1	0

A listing of Closet & Storage Concepts franchises held as of December 31, 2022 can be found in Exhibit D “List of Franchises.” Exhibit D also lists the name, city and state, and business telephone number (or, if unknown, the last known telephone number) of every franchisee who had their franchise terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a 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. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Within the last three years, one franchisee has signed a confidentiality agreement with us. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

There are no trademark specific organizations associated with the franchise system being offered.

## **ITEM 21 FINANCIAL STATEMENTS**

Attached as Exhibit “E” are the audited financial statements for the Fiscal Years ending December 31, 2022, December 31, 2021 and December 31, 2020.

Our fiscal year end is December 31st.

## **ITEM 22 CONTRACTS**

The following agreements are included in this Disclosure Document:

Closet & Storage Concepts Franchise Agreement and the following Exhibits: (Exhibit B)

Exhibit 1	-	Territory
Exhibit 2	-	Form of Guaranty
Exhibit 3	-	Form of Confidentiality Agreement
Exhibit 4	-	Business Location Agreement
Exhibit 5	-	Form of Release
Exhibit 6	-	Collateral Assignment of Lease
Exhibit 7	-	Disclosure Questionnaire
Exhibit 8	-	Statement of Ownership Interest
Exhibit 9	-	Consent to Transfer
Exhibit 10	-	Assignment and Assumption Agreement
Exhibit 11	-	Telephone, Internet Websites and Listing Agreement
Exhibit 12	-	Electronic Transfer Authorization

State Addenda: (Exhibit F)

## **ITEM 23 RECEIPTS**

Two copies of an acknowledgment of your receipt for this disclosure document appear as the last pages of the disclosure document. Please date, sign, and return one copy to us and keep the other with this disclosure document for your records.

# **Exhibit A**

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## **STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS**

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**Closets Unlimited of New  
Jersey, Inc.**

**STATE ADMINISTRATORS/  
DESIGNATION OF AGENT FOR SERVICE OF PROCESS**

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for the franchising disclosure/registration laws. Where we are registered to sell franchises, we have appointed the state agency, or as noted below, a state officer, as our agent for service of process in the state. We may not yet be registered to sell franchises in any or all of the states listed. There may be states in addition to those listed below in which we have appointed an agent for service of process. There may also be additional agents appointed in some of the states listed.

<p><b><u>CALIFORNIA</u></b>  Department of Financial Protection and Innovation  320 West Fourth Street, Suite 750  Los Angeles, California 90013-2344  (866) 275-2677  Agent: California Commissioner of Financial Protection and Innovation</p>	<p><b><u>NORTH DAKOTA</u></b>  North Dakota Securities Department  600 East Boulevard Avenue  State Capitol  Fifth Floor  Dept. 414  Bismarck, North Dakota 58505-0510  (701) 328-4712  Agent: North Dakota Securities Commissioner</p>
<p><b><u>HAWAII</u></b>  Commissioner of Securities  Department of Commerce and Consumer Affairs  335 Merchant Street, Room 203  Honolulu, Hawaii 96813  (808) 586-2722  Agent: Commissioner of Securities of the State of Hawaii</p>	<p><b><u>OREGON</u></b>  Department of Finance and Corporate Securities  Labor and Industries Building  350 Winter Street NE, Room 410  Salem, Oregon 97301-3881  (503) 378-4387  Agent: Director of Oregon Department of Insurance and Finance</p>
<p><b><u>ILLINOIS</u></b>  Franchise Division  Office of Attorney General  500 South Second Street  Springfield, Illinois 62706  (217) 782-4465  Agent: Illinois Attorney General</p>	<p><b><u>RHODE ISLAND</u></b>  Department of Business Regulation  Division of Securities  1511 Pontiac Ave.  John O. Pastore Complex  Building 69-1  Cranston, RI 02920  (401) 462-9500  Agent: Director of Business Regulation</p>
<p><b><u>INDIANA</u></b>  Franchise Section  Indiana Securities Division  Room E-111  302 West Washington Street  Indianapolis, Indiana 46204  (317) 232-6681  Agent: Indiana Secretary of State  Indiana Securities Division  201 State House  Indianapolis, IN 46204</p>	<p><b><u>SOUTH DAKOTA</u></b>  Department of Labor and Regulation  Division of Insurance  Securities Regulation  124 South Euclid, Suite 104  Pierre, South Dakota 57501  (605) 773-3563  Agent: Director, Division of Insurance-Securities Regulation</p>

<p><u>MARYLAND</u> Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360 Agent: Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2020</p>	<p><u>VIRGINIA</u> State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9<sup>th</sup> Floor Richmond, Virginia 23219 (804) 371-9051 Agent: Clerk of the State Corporation Commission 1300 E Main St., 1<sup>st</sup> Fl. Richmond, VA 23219 Tel: (804) 371-9733</p>
<p><u>MICHIGAN</u> Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 670 Law Building Lansing, Michigan 48913 (517) 373-7177 Agent: Michigan Department of Commerce Corporations and Securities Bureau 6546 Mercantile Way Lansing, MI 48910</p>	<p><u>WASHINGTON</u> Director Washington Department of Financial Institutions Securities Division 150 Israel Road SW Tumwater, Washington 98501 (360) 902-8760 Agent: Securities Administrator, Director of Department</p>
<p><u>MINNESOTA</u> Minnesota Department of Commerce 85 7<sup>th</sup> Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1500 Agent: Minnesota Commissioner of Commerce</p>	<p><u>WISCONSIN</u> Securities Division of the Wisconsin Department of Financial Institutions 345 W. Washington Ave., 4<sup>th</sup> Floor Madison, Wisconsin 53703 (608) 266-8559 Agent: Wisconsin Commissioner of Securities</p>
<p><u>NEW YORK</u> NYS Department of Law Investor Protection Bureau 28 Liberty Street, 21<sup>st</sup> Floor New York, NY 10005 (212) 416-8222 Phone  Agent for service: New York Department of State One Commerce Plaza, 99 Washington Avenue, 6<sup>th</sup> Floor Albany, NY 12231-0001 (518) 473-2492</p>	

# **Exhibit B**

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## **CLOSET & STORAGE CONCEPTS FRANCHISE AGREEMENT**

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**Closets Unlimited of New  
Jersey, Inc.**



**CLOSET & STORAGE CONCEPTS  
FRANCHISE AGREEMENT**

**CLOSET & STORAGE CONCEPTS  
FRANCHISE AGREEMENT**



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### Exhibits

Exhibit 1	-	Individual Franchise Location/Territory
Exhibit 2	-	Form of Guarantee
Exhibit 3	-	Form of Confidentiality Agreement
Exhibit 4	-	Business Location Agreement
Exhibit 5	-	Form of Release
Exhibit 6	-	Collateral Assignment of Lease
Exhibit 7	-	Disclosure Questionnaire
Exhibit 8	-	Statement of Ownership Interest
Exhibit 9	-	Consent to Transfer
Exhibit 10	-	Assignment and Assumption Agreement
Exhibit 11	-	Telephone, Internet Websites and Listing Agreement
Exhibit 12	-	Electronic Transfer Authorization

## **CLOSET & STORAGE CONCEPTS FRANCHISE AGREEMENT**

THIS AGREEMENT is entered into and made by and between CLOSETS UNLIMITED OF NEW JERSEY, INC., a New Jersey corporation with its principal business address at 436 Commerce Lane, Suite D, West Berlin, NJ 08091 ("Franchisor") and \_\_\_\_\_ with a principal address at \_\_\_\_\_ ("Franchisee") on the date this Agreement is executed by Franchisor below (the "Effective Date").

### **BACKGROUND**

**A.** Franchisor and/or its parents, predecessor, equity owners or affiliates, through the expenditure of considerable money, time and effort, has developed a business system (the "Closet & Storage Concepts System" or the "System") for the design, marketing, construction and installation of customized residential and commercial storage space including closets, garages, and other storage areas for consumers and the selling of related retail accessories in a retail showroom, which includes: high standards of services, products, know-how and trade secrets; uniform specifications of products and services, equipment and fixtures; sales techniques, and merchandising, marketing, advertising, and management systems; quality and inventory control procedures; and procedures for operation and management of Closet & Storage Concepts businesses pursuant to the Operations Manual (as hereinafter defined) provided by Franchisor and modified from time to time and other standards and specifications Franchisor otherwise provides.

**B.** The System is identified by various trade names, trademarks and service marks used by Franchisor and its franchisees including, without limitation, the service marks "Closet & Storage Concepts®", "Conquer Closet Clutter®", "Closet & Storage Concepts (and Design)®", "Getting Organized is Always in Style®", "Getting Organized is Always in Style!", "Got Space?" and other identifying marks and symbols that Franchisor uses now or may later use as part of the System (the "Proprietary Marks"). The rights to all the Proprietary Marks shall be owned exclusively by Franchisor or its parents or affiliates.

**C.** Franchisor is engaged in the business of granting franchises to qualified individuals and business entities to use the System to operate Closet & Storage Concepts franchises.

**D.** Franchisee has applied to Franchisor for a franchise to operate a Closet & Storage Concepts business using the System and Proprietary Marks and to receive the training, confidential information and other assistance Franchisor provides. Franchisor has approved Franchisee's application in reliance upon all of the representations made in the application.

**E.** By executing this Agreement, Franchisee acknowledges the importance of Franchisor's quality and service standards and agrees to operate Franchisee's business in accordance with those standards and as described in the Operations Manual. Franchisee also acknowledges that adhering to the terms of this Agreement and implementing the System as Franchisor directs are essential to the operation of Franchisee's business, to the System and to all Franchisor's franchisees.

In consideration of the mutual promises and commitments contained in this Agreement, together with other valuable consideration, the receipt and sufficiency of which is acknowledged, Franchisor and Franchisee agree as follows:

## 1. GRANT OF FRANCHISE AND LOCATION

1.1 **Grant and Acceptance.** Franchisor grants to Franchisee, and Franchisee accepts, all subject to the terms of this Agreement: a franchise to establish and operate one Closet & Storage Concepts business using the Closet & Storage Concepts System and the Proprietary Marks pursuant to this Agreement (the "Franchised Business"). Franchisee shall use the Proprietary Marks, participate in the promotional, advertising and marketing programs that are made available to Franchisee, and have access to certain proprietary trade secrets, marketing and business expertise of Franchisor, as they may be modified from time to time, in connection with the Franchised Business. If Franchisor determines that demand justifies it, Franchisee may be permitted to operate a satellite location within the granted Territory pursuant to all terms and conditions of this Agreement, as applicable, unless otherwise expressly indicated.

1.2 **Approved Location.** If the Approved Location is not identified on Exhibit 1 when this Agreement is executed, then Franchisee is responsible for locating a site within the geographic site selection area described on Exhibit 1 (the "Search Area"). The Search Area is delineated for the sole purpose of site selection and does not provide any territorial exclusivity or protection. Franchisee must find a location in the Search Area and submit it to Franchisor for approval as required in this Agreement. The exact address of Franchisee's Closet & Storage Concepts business is set forth on Exhibit 1 and Exhibit 4 of this Agreement (said address is hereinafter referred to as the "Approved Location"). If the Approved Location is not identified in Exhibit 1 and Exhibit 4 when the parties execute this Agreement, Franchisee shall find a location and submit it to Franchisor for approval as required in Section 1.3.

1.3 **Site Search; Purchase or Lease of Premises.** Within one hundred and twenty (120) days after Franchisor's execution of this Agreement, Franchisee shall execute a Business Location Agreement in the form attached hereto as Exhibit 4. The parties may extend the 120 day period for an additional 120 days provided Franchisee diligently complied with the obligations of this Section 1.3. Prior to acquiring by lease or purchase a site for the Franchised Business, Franchisee with Franchisor's assistance (as described in Section 4.2 of this Agreement) shall locate a site for the Franchised Business that satisfies the site selection guidelines provided to Franchisee by Franchisor pursuant to Section 4.2 of this Agreement. Franchisee shall submit to Franchisor in the form specified by Franchisor a description of the site, including evidence satisfactory to Franchisor demonstrating that the site satisfies Franchisor's site selection guidelines, together with such other information and materials as Franchisor may reasonably require, including, but not limited to, a letter of intent or other evidence satisfactory to Franchisor which confirms Franchisee's favorable prospects for obtaining the site. Franchisor generally will approve or disapprove the site within sixty (60) days after submission of the required information. If Franchisee will purchase the Approved Location for the Franchised Business, Franchisee shall submit a copy of the proposed contract of sale to Franchisor for its written approval prior to its execution and shall furnish to Franchisor a copy of the executed contract of sale within ten (10) days after execution. In the event of such purchase, Franchisee shall grant Franchisor the option to acquire the Approved Location in the event of any default by Franchisee under this Agreement or under any mortgage relating to the Approved Location. If Franchisee will occupy the Approved Location under a lease, Franchisee shall negotiate and execute a lease for the site with the landlord of the showroom site on terms satisfactory to Franchisor; provided, however, that, prior to execution of the lease, Franchisee shall submit a copy of the lease to Franchisor for its written approval.

1.3.1 Franchisor shall not approve any lease for the proposed location unless it contains certain provisions, including (i) a limitation that the premises shall be used only for a Closet & Storage Concepts business; (ii) a prohibition against assignment, subletting exercise or non-exercise of any option to extend, renew or purchase by Franchisee without Franchisor's prior written approval; (iii) permission for Franchisor to enter the premises and make changes to protect the Proprietary Marks; (iv) Franchisor will be given prior written notice of and have the option to cure any default of Franchisee under the lease; (v) the layout, sign usage and hours of operation of the Franchised Business as proposed in the Agreement and Operations Manual are permitted under the terms of the lease; and (vi) the lessor will agree not to lease premises in the immediate vicinity of the Approved Location to competing retail establishments that sell custom closet and garage storage services or related retail products and items without Franchisor's prior written consent. The lease shall be for a term at least equal to the term of this Agreement or, in the alternative, for a shorter term provided the lease is renewable at the option of Franchisee for an additional term or terms which, together with the initial term, equal or exceed the term of this Agreement. The lease must also contain general business terms acceptable to Franchisor. In addition, prior to execution of the lease, Franchisor and Franchisee shall execute the Collateral Assignment of Lease which grants Franchisor the right but not the obligation to assume the lease upon Franchisee's default under the lease or this Agreement. Upon execution of the lease, Franchisor and lessor shall execute the Consent and Agreement of Lessor. The Collateral Assignment of Lease and Consent and Agreement of Lessor shall be in the form approved by Franchisor. Franchisor's current form is attached as Exhibit 6 to this Agreement. Franchisee shall deliver an executed copy of the lease to Franchisor within 15 days after the execution of the lease.

1.3.2 Franchisee must complete the development of and open the Franchised Business for business by the earlier to occur of: (i) 120 days after the date of execution of the Business Location Agreement, or (ii) within 240 days after the date of the execution of this Agreement.

1.3.3 Franchisor's review of the lease for the premises and its acceptance of the site selected by Franchisee does not constitute Franchisor's representation or guarantee that Franchisee shall succeed at the selected location, nor an expression of Franchisor's opinion regarding the terms of the lease or the viability of the location.

1.3.4 In the event the lease term is shorter than the term of this Agreement and the lease cannot be renewed or extended, or Franchisee cannot continue for any other reason to occupy the Approved Location, Franchisee shall relocate the Franchised Business to a site mutually acceptable to Franchisee and Franchisor in accordance with Franchisor's specifications and subject to the provisions of Sections 1.6 through 1.8, in order to complete the balance of the term of this Agreement. Franchisee shall give Franchisor notice of Franchisee's intent to relocate and must complete all steps to either enter into a lease or sublease or an agreement to purchase the site within 60 days after closing the Franchised Business at the original location. Franchisee must open the Franchised Business for business at the new location within 180 days of closing the original location. If Franchisee fails to comply with the terms of this Section 1.3.4, Franchisor may terminate this Agreement

1.4 **Territory.** Except as otherwise provided herein and to the extent consistent with Federal and state law and subject to Franchisee's full compliance with this Agreement and any other agreement between Franchisor and Franchisee, Franchisor will not own, operate, sell, issue or allow any other party to operate a Closet & Storage Concepts business at a location within the Territory designated in Exhibit 1 of this Agreement (hereinafter referred to as the "Territory"). The standard Territory is approximately 1 million people. Although Franchisee is not restricted as to the customers whom it may serve, Franchisee is

not permitted to operate a Closet & Storage Concepts business at a location or solicit customers within the Territory of another franchisee of the System except as otherwise provided herein.

The Franchisor reserves the right, in its sole discretion, to operate or authorize others to operate, or grant licenses to operate businesses under the Proprietary Marks at any location, and on such terms and conditions, as Franchisor shall determine outside of the Territory, regardless of proximity thereto, up to and including a location immediately adjacent to the Territory.

**1.5 Exclusivity of Territory.** In order to facilitate the successful development of the Franchisee's Closet & Storage Concepts business and to protect Franchisee's investment therein, Franchisor grants to Franchisee the exclusive right, except as otherwise provided herein and except to the extent inconsistent with Federal or state law, to operate the Closet & Storage Concepts business within the Territory. Except as otherwise provided herein, neither Franchisor nor any other of its franchisees shall be authorized to establish a Closet & Storage Concepts business at a location or solicit customers within the Territory. Franchisor and/or Franchisor's affiliates, retain all other rights, including without limitation, (i) the right to own, operate, franchise or license (whether in connection with a merger or acquisition or otherwise), businesses of any type operating under names other than the Proprietary Marks, regardless of whether or not these other concepts offer products and services which are similar to or competitive with those offered by the Franchised Business and regardless of location and the right to convert those locations to Franchised Businesses; and (ii) the right to be acquired by (or merge or become affiliated with) any other business operating under names other than the Proprietary Marks, including a competing business, with locations anywhere, which may result in the required conversion of Franchised Businesses.

With the written consent of Franchisor, Franchisee may operate the Franchised Business out of more than one location within the Territory provided that each of the following conditions precedent are fulfilled:

1.5.1 The Franchisee shall submit reasonable projections based upon pertinent marketing data that the Territory can support such multiple locations and that the opening of multiple locations is desirable to avoid loss of marketing position and business to competition;

1.5.2 The Franchisee shall demonstrate that the establishment of more than one location does not impact materially and adversely upon a franchise location or potential franchise location outside of the Territory; and

1.5.3 In obtaining the lease for the additional locations, Franchisee shall comply with the requirements set forth in Section 1.3 of this Agreement.

Any such additional Closet & Storage Concepts business location established by Franchisee under this Section 1.5 shall be governed by the terms and conditions of this Agreement, including, but not limited to, Franchisee's obligation to pay Royalties and Local Advertising fees with respect to each and every location established hereunder. For the purposes of determining these fees, the Gross Revenues of all locations operated by Franchisee under a single Franchise Agreement within a single Territory shall be aggregated.

**1.6 Selection of New Location.** The location to be proposed pursuant to Section 1.3.4 above shall be within the Territory. The approval of a particular location within the Territory or the determination

that an appropriate location is not available within the Territory shall all be within the sole and absolute discretion of Franchisor and its decisions thereon shall be final.

1.7 **Relocation Proposal.** If such location is to be leased, subleased, or sold by Franchisor or any affiliated corporation to Franchisee, such proposal shall be accompanied by a statement of such requirements as may be prescribed by Franchisor relating to the construction or alteration of improvements on the premises. Franchisor shall not submit to Franchisee any lease or sublease with Franchisor or any affiliated entity the term of which extends beyond the term of this Agreement. Franchisor's proposal of a location does not constitute Franchisor's representation or guarantee that Franchisee shall succeed at the selected location, nor an expression of Franchisor's opinion regarding the viability of the location.

1.8 **Acceptance of Relocation.** If, within thirty (30) days after receipt of Franchisor's proposal of such new location, Franchisee gives to Franchisor written notice of acceptance of such proposal, and either enters into such tendered lease, sublease, or sale contract, or if none is tendered, agrees in writing to comply with any and all requirements prescribed by Franchisor relating to the lease of the Closet & Storage Concepts business premises and construction or alteration of improvements on the premises, then notwithstanding the termination right at Section 8.2.2 (r) of this Agreement, this Agreement shall continue for the remainder of the term specified in Section 2.1 of this Agreement and shall be deemed amended to refer to such new location. If Franchisee fails to comply with the provisions of this Section 1.8 within said thirty (30) day period, then Franchisor shall have the right to terminate this Agreement pursuant to Section 8.2.2 (r), and Franchisee shall have no further rights under or by virtue of Sections 1.6 through 1.8 of this Article.

1.9 **Other Channels of Distribution.** Franchisor and Franchisor's affiliates, reserve the unrestricted right to offer products and services, whether now existing or developed in the future, identified by the Proprietary Marks or other marks Franchisor and/or Franchisor's affiliates own or license, through any distribution method Franchisor or its affiliates may establish, and may franchise or license others to do so, both within and outside the Territory, regardless of whether the offering of products or services in the other channels of distribution compete with Franchisee's Closet & Storage Concepts business. These other channels of distribution may include locations and venues other than a Closet & Storage Concepts location, other retail establishments, mail order, catalogs, the Internet, and any similar outlets or distribution methods as Franchisor and/or its affiliates determine, in Franchisor's or its affiliate's sole discretion. This Agreement does not grant Franchisee any rights to distribute products through other channels of distribution as described in this Section 1.9, and Franchisee has no right to share, nor does Franchisee expect to share, in any of the proceeds Franchisor and/or Franchisor's affiliates or franchisees or licensees or any other party receives in connection with the alternate channels of distribution.

## 2. **TERM AND RENEWAL**

2.1 **Term.** This Agreement grants rights to Franchisee for a period of 10 years and is effective when signed by Franchisor.

2.1.1 **Renewal Option.** Subject to the provisions of this Article 2, Franchisee is hereby granted an option to extend this Agreement for one (1) successive ten (10) year period (hereinafter referred to as the "Renewal Period"). This option may be exercised by Franchisee by giving written notice of its election to renew the franchise not less than 6 months nor more than 12 months prior to the expiration of the current term. Upon payment of the renewal fee set forth in Section 2.2 below and compliance with all



other conditions for exercise of the renewal option set forth in Section 2.5 of this Agreement at least five (5) days prior to the expiration date, this Agreement shall be renewed for an additional ten (10) years (the date of such renewal shall be hereinafter referred to as the “Renewal Date”). If this Agreement is renewed in accordance with this Section 2.1.1, then the term of this Agreement shall be extended to include the Renewal Period.

**2.2 Renewal Fee.** The renewal fee shall be the sum of 25% of the then current Initial Franchise Fee, subject to a minimum of \$11,125.

**2.3 Royalties after Renewal.** Upon renewal, the royalties payable to Franchisor shall be the same as the royalties provided in the standard franchise agreements being used by Franchisor as of the Renewal Date.

**2.4 Conditions for Renewal Option.** Franchisee shall have the right to exercise the renewal option referred to in Section 2.2 above provided that all of the following conditions have been satisfied:

2.4.1 Franchisee shall repair or replace, at Franchisee’s cost and expense, equipment (including electronic cash register or computer hardware or software systems), signs, interior and exterior decor items, fixtures, or furnishings, supplies and other products and materials required for the operation of the Closet & Storage Concepts business as Franchisor may reasonably require and shall obtain, at Franchisee’s cost and expense, any new or additional equipment, fixtures, supplies and other products and materials which may be reasonably required by Franchisor for Franchisee to offer and sell new products and services from the Closet & Storage Concepts business and shall otherwise modernize the business’ premises, equipment (including electronic cash register or computer hardware and software systems), signs, interior and exterior decor items, fixtures, furnishings and supplies and other products and materials required for the operation of the Closet & Storage Concepts business as reasonably required by Franchisor to reflect the then current standards and image of the System as contained in the Operations Manual or otherwise provided in writing by Franchisor; and

2.4.2. Franchisee shall present satisfactory evidence that Franchisee has the right to remain in possession of the premises at the Approved Location or obtain Franchisor's approval of a new site for the operation of the Approved Location for the duration of the renewal term of this Agreement.

2.4.3 Franchisee has executed a release of any and all claims against Franchisor and its parents, affiliates, and their equity owners, officers, directors, agents, employees, attorneys and accountants arising out of or related to this Agreement or any related agreement. The release shall contain language and be of the form chosen by Franchisor, except the release shall not release any liability specifically provided for by any applicable state statute regulating franchising. Our current form of release is attached to this Agreement as Exhibit "5".

2.4.4 All amounts to be paid by Franchisee to Franchisor and/or its affiliates are currently paid, and no default under this Agreement exists uncured five (5) days after the Franchisee has received written notice of any overdue amounts. Even if no such default exists, Franchisor may revoke said option and refuse to allow said renewal if, during the initial term of this Agreement, Franchisee has been in material default of this Agreement. Franchisor and Franchisee agree that, for the purposes of this Section, such material default includes, but is not limited to, failure to make one hundred percent (100%) of all payments and submit reports within fifteen (15) days of the date they are actually due. It is further agreed that such default also includes Franchisee's consistently demonstrated unwillingness to take remedial actions as recommended by Franchisor to improve Franchisee's sales and marketing methods, in accordance with Franchisee's obligations under this Agreement

2.4.5 As part of the process of renewing this Agreement, Franchisor reserves the right to re-evaluate the then-existing Territory according to certain demographics and Franchisor's then-current standards. A re-evaluation of the Territory may result in the renewal Territory being smaller or larger than the original Territory.

**2.5 Additional Franchise Locations.** If at any time during the initial term or the Renewal Period under this Agreement, Franchisor reasonably determines, based on pertinent marketing data, that one (1) or more additional Closet & Storage Concepts business locations are necessary in the Territory in order to avoid loss of market position and business to competitors and that Franchisee is unable to adequately service the Territory by its existing Closet & Storage Concepts business location(s), Franchisee, Franchisor or a new franchisee licensed by Franchisor may operate such additional business location so long as the following conditions are met:

2.5.3 Franchisor communicates in writing to Franchisee its intention to open said additional location, based on the reasonable market projections and determinations set forth above;

2.5.4 Franchisor provides Franchisee a thirty (30) day right of first refusal to elect to open the additional location in the Territory, following receipt of notification from Franchisor;

2.5.5 in the event Franchisee elects not to open the additional Closet & Storage Concepts business location pursuant to this Section or fails to open said location within three (3) months after it makes the election (except if such failure is due to reasons beyond the control of Franchisee such as Acts of God, war or similar occurrences provided that Franchisee has made a good faith effort to open the location), Franchisor shall have the right to accept, in its sole and exclusive discretion, offers from other parties to become a franchisee in the Territory or to operate a Franchisor-owned Closet & Storage Concepts business location in the Territory;

2.5.6 in the event that Franchisee elects to open the additional Closet & Storage Concepts business location pursuant to this Section, the right to operate such location shall be governed by the terms and conditions of this Agreement as amended, including, but not limited to, Franchisee's obligation to pay Royalties under Article 3 of this Agreement and Local Advertising fees with respect to each and every additional Closet & Storage Concepts business location established hereunder by aggregating the Gross Revenues of all of its locations within a single Territory. There will be no payment of any additional initial franchise fee with respect to an additional location;

2.5.7 the election of Franchisee not to open the additional Closet & Storage Concepts business location pursuant to this Section shall not prevent Franchisee from exercising its rights to open additional locations in the Territory in accordance with Section 1.4 of this Agreement, provided, however, that Franchisor may consider the proximity of any such additional location to the additional Closet & Storage Concepts business location(s) opened hereunder in determining whether to give its consent to any such other additional location, and Franchisor's decision to withhold its consent based upon such consideration shall not be or be deemed to be unreasonable; and

2.5.8 in the event that more than one Closet & Storage Concepts business location is determined to be necessary in the Territory by Franchisor, Franchisee shall notify Franchisor within thirty (30) days after the opening of the first additional Closet & Storage Concepts business location of Franchisee's desire to open the additional Business locations deemed necessary in the Territory after which Franchisor and Franchisee shall proceed again as outlined in this Section.

**2.6 Franchisor's Election Not to Renew.** In the event Franchisor determines that Franchisee will not have the right to exercise the renewal option referred to in Section 2.2 above, pursuant to Section 2.5, above, and Franchisor is unwilling to renew the Franchise granted by this Agreement, Franchisor shall forward to Franchisee, not less than nine (9) months prior to expiration, a Notice of Probable Intention Not to Renew ("Notice"). Such Notice shall set forth the acts and/or omissions of Franchisee which constitute the reasons under this Agreement that Franchisor is unwilling to renew. In the event Franchisor is convinced that Franchisee is incapable of fulfilling its obligations under this Agreement, Franchisor shall then send to Franchisee a Notice of Refusal to Renew at least six (6) months prior to the expiration of this Agreement. The notice shall state the reasons for the refusal to renew and the effective date of the expiration of this Agreement. Such Notice of Refusal to Renew shall be deemed to supersede, revoke, and otherwise withdraw the option of Franchisee to renew. In the event Franchisor is satisfied that Franchisee is able to and will correct any uncured deficiencies claimed in its Notice of Probable Intention Not to Renew, Franchisee will be so advised and will be allowed to exercise its option to renew referred to in Section 2.2 above.

Franchisor shall not refuse to renew this Agreement without fairly compensating the Franchisee for the fair market value, at the time of expiration of the Agreement, of the Franchisee's inventory, supplies, equipment, and furnishings purchased from the Franchisor, exclusive of personalized materials which have no value to the Franchisor and inventory, supplies, equipment and furnishings not reasonably required in the conduct of the Closet & Storage Concepts business; and provided, further, that Franchisor may offset against amounts owed to a Franchisee under this subsection any amounts owed by the Franchisee to the Franchisor.

### **3. FEES AND COSTS; ADVERTISING**

**3.1 Initial Franchise Fee.** Franchisee will pay, concurrently with the execution of this Agreement, to Franchisor the sum of Forty-Four Thousand Five Hundred Dollars (\$44,500.00). If this Agreement is for a Franchised Business beyond Franchisee's first Franchised Business the Fee will be Thirty-Six Thousand Dollars (\$36,000.00). Said Initial Franchise Fee is in addition to the obligation of Franchisee to make periodic royalty payments pursuant to Section 3.3 hereof. The Initial Franchise Fee does not apply to additional locations of Franchisee within the same Territory.

**3.2 Refund of Initial Franchise Fee.** The Initial Franchise Fee referred to in Section 3.1, above, shall be deemed fully earned by Franchisor after due execution and delivery of this Agreement by Franchisor. Except as herein expressly provided, said Initial Franchise Fee shall not be refunded, in whole or in part, upon any termination of this Agreement nor under any other circumstances whatsoever.

#### **3.3 Royalty Fee.**

**3.3.1 Royalty Based on Gross Revenue.** Franchisee agrees to pay to Franchisor in accordance with Section 3.3.3, during the term of this Agreement, 5% of all weekly Gross Revenues of the Franchised Business subject to a minimum of \$125.00 per week. The Gross Revenues of all of Franchisee's locations within a single Territory are aggregated for purposes of determining the correct Royalty Fee. If the term of this Agreement commences or ends on the day other than the first or last day of a week, respectively, the royalty for such week shall be based on Gross Revenue for the portion of the week commencing or ending with the date of commencement or termination of the term of this Agreement, as the case may be.

**3.3.2 “Gross Revenue” Defined.** For the purpose of this Agreement, above, the term “Gross Revenue” is defined as the total gross revenue derived by Franchisee from the operation of Franchisee's Closet & Storage Concepts business whether from sales for cash or credit, including sales of both products and services, and including installation charges, exclusive of all sales taxes, use taxes, Gross Revenue taxes and other similar taxes added to the sales price and collected from the customer, and less any bona fide refunds, rebates, and discounts. Royalties received by Franchisor pursuant to this Section shall not be deemed trust funds nor shall Franchisor be required to segregate such funds in any way, but they shall be deemed general funds of Franchisor for all purposes.

**3.3.3 Manner of Payment.** Franchisee shall participate in Franchisor's electronic funds transfer program under which Franchisor automatically deducts the weekly royalty and other payments owed to Franchisor under this Agreement from Franchisee's bank account. Before opening, Franchisee shall sign and give to Franchisor's bank all documents necessary to effectuate this program. Franchisee shall immediately notify Franchisor of any change in Franchisee's banking relationship, including changes in account numbers. Franchisor may require that Franchisee execute its then-current form of electronic funds transfer agreement, a copy of which is attached hereto as Exhibit 12. Franchisor reserves the right to require Franchisee to submit all payments due to Franchisor or its affiliates arising out of or related to the Franchised Business in any form or manner Franchisor prescribes. All weekly payments required under this section shall be due and deducted from Franchisee's bank account on Monday of each week on the receipts for the preceding week or such other day as Franchisor mandates. The royalty calculations shall be based on the weekly reports and/or statements signed by Franchisee in the form specified by Franchisor indicating all Gross Revenue (as defined in Section 3.3.2) of Franchisee during the applicable week, which must be submitted to Franchisor on or before the close of business on Monday of each week. Such reports shall include all sales generated by Franchisee (including any sales from the Approved Location or otherwise) during the previous week, shall be complete, shall be filed timely and shall be signed by Franchisee or its designated manager. If Franchisee fails to submit any weekly revenue report on a timely basis, Franchisor may estimate Gross Revenues and withdraw from Franchisee's operating account the amounts estimated to be due which will be reconciled when the required reports are received.

**3.3.4 Insufficient Funds.** If the funds in Franchisee's bank account are insufficient to cover any amounts due under this Agreement on the date such funds are due, in addition to the overdue amount, Franchisor shall immediately be entitled to debit from Franchisee's bank account interest and charge its then-current fee to cover bank charges and administrative costs.

**3.3.5 Monthly Gross Revenue Report.** Franchisee shall submit to Franchisor within ten (10) days after the close of each calendar month a true, correct, and complete statement of gross revenue for such month on forms provided by Franchisor, containing all information called for by such forms and certified to by Franchisee as provided in Section 5.15 of this Agreement. Such reports will reconcile the monthly Gross Revenue of Franchisee with Franchisee's weekly Gross Revenue and royalty payments.

**3.3.6 Annual Revenue Report.** Within sixty (60) days after the close of Franchisee's fiscal year, Franchisee shall furnish a statement, on forms provided by Franchisor, containing all of the information requested on such forms, certified to by Franchisee and signed by Franchisee's accountant, showing the total net revenue for said preceding fiscal year, as finally adjusted and reconciled after the closing and review of Franchisee's books and records for such fiscal year. If such statement discloses any

underpayment of royalties for such fiscal year, Franchisee shall pay to Franchisor, at the time of submitting such statement, the amount of any such underpayment. Any overpayment shall be credited to Franchisee's account.

**3.4 Advertising Generally.** Franchisee agrees to actively promote the Franchised Business and to abide by all of Franchisor's advertising requirements. With regard to advertising generally for the Franchised Business, Franchisee shall use only such signs, emblems, lettering, logos and display and advertising materials as Franchisor approves in writing from time to time. All advertising, marketing and promotion by Franchisee of any type shall be conducted in a dignified manner, shall coordinate and be consistent with Franchisor's marketing plans and strategies and shall conform to the standards and requirements Franchisor prescribes. Samples of all sales promotional materials and advertising desired to be used by Franchisee including, without limitation, newspaper, radio and television advertising, specialty and novelty items, signs, boxes, bags and other packaging which have not been previously approved by Franchisor or which were approved by Franchisor more than 12 months before the proposed use must be submitted for approval. In the event that Franchisor from time to time furnishes to Franchisee any advertising, promotional, or informational materials to be used, displayed, or distributed in or about Franchisee's Closet & Storage Concepts business premises, Franchisee agrees to follow the instructions of Franchisor in connection therewith. Furthermore, Franchisee agrees at all times to cooperate and follow all instructions, recommendations and programs instituted on behalf of Franchisor with regard to advertising programs, media selection, cooperative advertising programs and local and national advertising programs. Franchisee will participate, cooperate and pay its fair share of all advertising designed for and benefitting Franchisee and the System plus a mark-up of twenty-percent (20%) to cover any shipping and handling costs.

**3.5 National Advertising Program.** Franchisee must participate in the National Advertising Program ("NAP"). NAP contributions count towards the total local advertising amount Franchisee is required to spend. The NAP fee is currently \$300 per month-per Franchised Business but that amount may be adjusted up to a monthly contribution which will not exceed two and one half percent (2.5%) of the previous calendar month's Gross Revenues ("NAP Contribution"). All contributions due under this Section are paid in the manner stated in Section 3.3 above. Franchisee agrees to expend and/or contribute all advertising fees required under this Agreement notwithstanding the actual amount of contribution by other franchisees of Franchisor, or of default of this obligation by any other franchisees. Franchisor may maintain contributions to the NAP in a separate bank account or hold them in Franchisor's general account and account for them separately, or Franchisor may establish separate entities to administer the NAP and the NAP contributions. Although once established, Franchisor would intend the NAP to be of perpetual duration, Franchisor maintains the right to terminate the NAP or to create new NAP accounts or merge accounts. Franchisor shall not terminate the NAP until all money in the NAP has been expended for advertising and/or marketing purposes or returned to contributors on the basis of their respective contributions. The money contributed to the NAP shall not be considered to be trust funds. Franchisor and any designee shall not have to maintain the money in the NAP in interest bearing accounts or obtain any level of interest on the money. Franchisor does not owe any fiduciary obligation for administering the NAP. Although it is anticipated that all NAP contributions will be spent in the fiscal year in which they accrue, any remaining amounts will be carried over for use during the next fiscal year. The NAP may spend more or less than the total NAP annual contributions in a given fiscal year and may borrow funds to cover deficits. Franchisor has the right to use NAP contributions, at its discretion, to meet any and all costs of maintaining, administering, directing, conducting, and preparing advertising, marketing, public relations, and/or promotional programs and materials, and any other activities which Franchisor believes will enhance the

image of the System, including the costs of preparing and conducting radio, television, electronic and print advertising campaigns in any local, regional or national medium; utilizing networking media sites, such as Facebook, Twitter, LinkedIn, Instagram, TikTok and on-line blogs and forums; developing, maintaining, and updating a World Wide Web or Internet site for System franchises (including creating or maintaining a presence in virtual worlds); direct mail advertising; deploying social networking promotional initiatives through online media channels; marketing surveys; employing advertising and/or public relations agencies to provide assistance; purchasing promotional items; conducting and administering in-store promotions and “mystery shopper” program(s) which may include call recording; implementation and use of Client Relationship Management software and solutions; and providing promotional and other marketing materials and services to the businesses operating under the System. Franchisor is not required to spend any amount of NAP contributions in the area in which Franchisee’s Franchised Business is located. Franchisor’s decisions in all aspects related to the NAP shall be final and binding. Franchisor may charge the NAP for the costs and overhead, if any, Franchisor incurs in activities reasonably related to the creation and implementation of the NAP and the advertising and marketing programs for franchisees. These costs and overhead include the proportionate compensation of Franchisor’s employees who devote time and render services in the conduct, formulation, development and production of advertising, marketing and promotion programs or who administer the NAP. At Franchisee’s written request, Franchisor shall provide fiscal year end unaudited financial statements and an accounting of the applicable NAP expenditures when available. Franchisee may have to purchase advertising materials produced by the NAP, by Franchisor or by its affiliate, and Franchisor, or its affiliate, may make a profit on the sale. The advertising and promotion Franchisor conducts is intended to maximize general public recognition and patronage of System franchises and the brand generally in the manner that Franchisor determines to be most effective. Franchisor is not obligated to ensure that the expenditures from the NAP are proportionate or equivalent to Franchisee’s contributions or that the Franchised Business or any franchisee shall benefit directly or pro rata or in any amount from the placement of advertising.

**3.6 Local Advertising Fee.** Franchisee must spend the greater of: (i) 7% of Franchisee’s monthly Gross Revenues or (ii) \$2,500.00 (Two Thousand Five Hundred Dollars), per month, on Local Advertising. NAP contributions will be counted towards the total monthly local advertising amount. Gross Revenues of all of Franchisee’s locations within a single Territory are aggregated for the purpose of determining the correct fee. Franchisee shall comply with each of its advertising obligations provided in this Agreement notwithstanding the payment by other Closet & Storage Concepts System franchisees of greater or lesser advertising obligations or default of these obligations by any other franchisees.

**3.7 Advertising Materials.** Franchisee must either use materials furnished by Franchisor or develop its own materials to advertise for potential clients and customers. If Franchisee elects to develop its own advertising materials, Franchisee must do the following:

3.7.1 Provide Franchisor with a copy of all layouts (not prepared by Franchisor) that will run, at least 30 days prior to their anticipated publication dates;

3.7.2 Obtain Franchisor’s written consent for advertising layouts provided in 3.7.1 above;

3.7.3 Provide Franchisor, when requested to do so, with actual tearsheets and copies of invoices of advertising expenses actually incurred and paid.

3.7.4 Franchisor does not require Franchisee to join any advertising cooperative it may

organize or develop, provided that it reserves the right to institute such requirement in the future. If a cooperative is formed, Franchisor will have the right to draft Franchisee's bank account for the advertising cooperative contribution and to pass those funds on to the respective cooperative. The cooperative members will be responsible for the administration of their respective advertising cooperative, as stated in the by-laws Franchisor approves. The by-laws and governing agreements will be made available for review by the cooperative's franchisee members. Franchisor may require a cooperative to prepare annual or periodic financial statements for review. Each cooperative will maintain its own funds; however, Franchisor has the right to review the cooperative's finances. Individual franchised businesses may not benefit directly or proportionately to their contribution to the Cooperative. Franchisor reserves the right to approve all of a cooperative's marketing programs and advertising materials. On 30 days written notice to affected franchisees, Franchisor may terminate or suspend a cooperative's program or operations. Franchisor may form, change, dissolve or merge any advertising cooperative. Affiliate owned locations will have no obligation to participate in any such advertising cooperatives.

3.7.5 Franchisee's failure to cooperate, participate or pay its applicable advertising obligations as set forth in this Section 3.7 shall be a material breach of this Agreement.

3.8 **Special Promotional Programs.** From time to time, Franchisor may, in its sole discretion, establish special promotional campaigns applicable to the Closet & Storage Concepts System as a whole or to specific advertising market areas. If Franchisee participates in any special promotional programs, Franchisee shall be required to pay for the development, purchase, lease, installation and/or erection of all materials necessary to such promotional campaigns, including but not limited to counter cards, posters, banners, signs, photography or give-away items. Franchisee cannot create unapproved loyalty or rewards programs.

3.9 **Pre Launch Advertising.** During the period beginning 30 days before through 30 days after the opening of the Franchised Business, Franchisee shall expend between \$10,000-\$20,000 on grand opening advertising and promotion in and/or for Franchisee's market area. Franchisor shall make such expenditure in accordance with Franchisor's written requirements and specifications. Franchisee has the right, but is not required, to spend additional sums with respect to grand opening advertising. Franchisee shall keep detailed records of all expenditures and provide these records to Franchisor within 15 days if Franchisor requests them.

3.10 **Website Requirements.** Franchisee acknowledges and agrees that any Website (including, but not limited to the Closet & Storage Concepts Website) constitutes "advertising" under this Agreement. Any Website Franchisee develops or utilizes must meet all other terms and conditions for advertising described in this Agreement. For this purpose, a "Website" means interactive electronic documents, contained in a network of computers linked by communications software that Franchisee operates or authorizes others to operate that refers to Franchisee's store, the CSC Proprietary Marks, Franchisor, and the Closet & Storage Concepts System. The term Website also includes Internet, Intranet and World Wide Web home pages, or social networking sites (including, but not limited to, Facebook, LinkedIn, Instagram, TikTok, Pinterest, or Twitter) and virtual worlds. Franchisee must not establish any Website without Franchisor's prior written approval of its form, content and information due to Franchisor's substantial interest in protecting the CSC Proprietary Marks, the System and the Confidential Information. Franchisor may require Franchisee to participate in a centralized Website operated by Franchisor, without any compensation to Franchisee. Franchisor may refuse to permit Franchisee to operate or establish any Website. Franchisor reserves the right to establish one or more Internet, Intranet or other



forms of e-commerce Websites, networks or communities for the purposes of promoting the development, growth, sales and solicitation of franchises; establishing or participating in, and requiring or authorizing Franchisee's participation in, or in connection with e-commerce; establishing purchasing, supply or referral programs, networks or communications in which Franchisee must participate; or monitoring Franchisee's performance under this Agreement and other purposes Franchisor designates from time to time which Franchisor deems to promote the development and operation of the System. Franchisor will establish and notify Franchisee of the establishment of Website policies and other forms of e-commerce policies, which will become part of the System Standards and be provided in the Manual or other written communication to Franchisee. Franchisor owns all right, title and interest in and to information compiled from, derived from or obtained by Franchisor via Franchisee's or Franchisor's use of Websites or Franchisor's establishment of the Intranet, Internet or other forms of e-commerce networks or communities. Any Websites and/or email addresses created by Franchisor in conjunction with the CSC trademark, advertising, promotion of CSC product and/or store locations belong to Franchisor. All domain names registered by Franchisor or by Franchisee in conjunction with the CSC trademarks belong to Franchisor.

**3.11 Software Fee.** In the event Franchisor develops proprietary software for the System, Franchisee may be required to enter into Franchisor's form of software license agreement. Franchisor reserves the right to charge Franchisee license support fees in connection with any proprietary software developed for the System.

**3.12 Collection Costs, Attorneys' Fees, Interest.** Any late payment or underpayment of the royalty fee, NAP, and any other charges or fees due Franchisor or its affiliates from Franchisee, shall bear interest from the due date until paid at the lesser of 18% interest per year or the highest lawful interest rate which may be charged for commercial transactions in the state in which the Franchised Business is located. If Franchisor engages an attorney to collect any unpaid amounts under this Agreement or any related agreement (whether or not formal judicial proceedings are initiated), Franchisee shall pay all reasonable attorneys' fees, court costs and collection expenses incurred by Franchisor. If Franchisee is in breach or default of any non-monetary material obligation under this Agreement or any related agreement, and Franchisor engages an attorney to enforce its rights (whether or not formal judicial proceedings are initiated), Franchisee shall pay all reasonable attorneys' fees, court costs and litigation expenses incurred by Franchisor. If Franchisee institutes any legal action to interpret or enforce the terms of this Agreement, and the claim of Franchisee in such action resolved in favor of Franchisor or the action is dismissed, Franchisor shall be entitled to recover its reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending the action, and may have the amount awarded as part of the judgment in the proceeding.

**3.13 Audit.** Franchisee shall maintain accurate business records, reports, correspondence, accounts, books and data relating to Franchisee's operation of the Franchised Business. At any time during normal business hours, Franchisor or its designee may enter the premises where these materials are maintained and inspect and/or audit Franchisee's business records and make copies to determine if Franchisee is accurately maintaining same. Alternatively, Franchisee shall deliver these materials to Franchisor or its designee if Franchisor requests. If any audit reveals that Franchisee has understated its Gross Revenue by 2% or more during any applicable reporting period, or if Franchisee has failed to submit complete reports and/or remittances to Franchisor for any 2 reporting periods, or Franchisee does not make these materials available, Franchisee shall pay the reasonable cost of the audit and/or inspection, including the cost of auditors and attorneys, incurred by Franchisor, together with amounts due for royalty and other

fees as a result of such understated revenues, including interest from the date when the revenues should have been reported.

**3.14 Financial Records and Reports.** Franchisee shall maintain for at least 5 fiscal years from their production, or any longer period required by law, complete financial and accounting records for the operation of the Franchised Business in accordance with generally accepted accounting principles and shall provide Franchisor with: (i) sales information in the form specified by Franchisor for sales and services rendered during the preceding month, indicating all monies received or accrued, sales or other services performed during the relevant period, and such other additional information as may be required by any such report forms furnished by Franchisor which Franchisor deems necessary to properly evaluate the progress of Franchisee, which Franchisor may access on a regular basis; (ii) unaudited annual financial reports and operating statements in the form specified by Franchisor, prepared by a certified public accountant or state licensed public accountant, within 60 days after the close of each fiscal year of Franchisee; (iii) state and local sales tax returns or reports within 15 days after their timely completion; (iv) federal, state and local income tax returns for each year in which the Franchised Business is operated within 60 days after their timely completion; and (v) such other reports as Franchisor may from time to time require, in the form and at the time prescribed by Franchisor. To assist Franchisee in recording and keeping accurate and detailed financial records for reports and tax returns, Franchisor, at its discretion, may specify the form in which the business records are to be maintained, provide a uniform set of business records to be used by Franchisee, and specify the type of equipment and software to be used in connection with the recording of revenues. Franchisor may obtain revenues and other information from Franchisee by modem or other similar means, from a remote location, without the need for consent, at the times and in the manner as Franchisor specifies, in Franchisor's sole discretion.

**3.15 Taxes on Payments to Franchisor.** If Franchisor is required to collect Sales Taxes from Franchisee, Franchisee must pay Franchisor an amount equal to any sales, use, Gross Revenue, or similar tax payable by Franchisor and calculated on any payments Franchisee must make under this Agreement, unless the tax is an income tax or an optional alternative to an income tax otherwise payable by Franchisor.

**3.16 Management Fee.** If Franchisor determines in its sole judgment that the operation of the Franchised Business is in jeopardy due to Franchisee or its Principal's death, disability or for any other reason, including occurrence of a default, then in order to prevent an interruption of the Franchised Business which would cause harm to the System and thereby lessen its value, Franchisee authorizes Franchisor to operate the Franchised Business for as long as Franchisor deems necessary and practical, and without waiver of any other rights or remedies which Franchisor may have under this Agreement. In Franchisor's sole judgment, it may deem Franchisee incapable of operating the Franchised Business if, without limitation, Franchisee fails to make payments when due or fails to remove any and all liens or encumbrances of every kind placed upon or against the business; or if Franchisor determines that operational problems require that it operate the Franchised Business for a period of time that it determines, in its sole discretion, to be necessary to maintain the operation of the business as a going concern. Franchisor shall keep in a separate account all monies generated by the operation of the Franchised Business, less the expenses of the business, including reasonable compensation and expenses for its representatives. In the event Franchisor exercises these rights, Franchisee agree to hold Franchisor and its representatives harmless for all actions occurring during the course of such temporary operation. Franchisee agrees to pay all of Franchisor's reasonable attorneys' fees and costs incurred as a consequence of the exercise of these rights. Nothing contained herein shall prevent Franchisor from exercising any other right which it may

have under this Agreement, including, without limitation, termination.

#### **4. FRANCHISOR SERVICES**

4.1 **Approved Location Improvements.** Franchisor, upon approval of the Approved Location, shall provide Franchisee with its advice regarding Approved Location improvements according to the terms of the Business Location Agreement attached hereto as Exhibit 4. Franchisor shall provide Franchisee with general layout, but not construction, plans for the Approved Location. Franchisee is solely responsible for the cost of all Approved Location improvements, which must conform to the specifications set forth by Franchisor in the Operations Manual or otherwise in writing.

4.2 **Site Selection Assistance.** If so requested by Franchisee, Franchisor shall provide such site selection guidance and assistance to Franchisee as Franchisor shall deem necessary and appropriate, in its sole discretion. Franchisor may assist Franchisee in identifying and evaluating a site and negotiating a lease for the premises at such site in accordance with this Agreement, subject to the availability of Franchisor's personnel and Franchisor's familiarity with the real estate market in the Territory. Franchisee shall not make any binding commitment to a prospective vendor or lessor of real estate with respect to a site for the Franchised Business unless the site is approved by Franchisor. Site selection assistance of Franchisor shall not relieve Franchisee of primary responsibility to locate an acceptable site in the required time period.

#### **4.3 Training.**

4.3.1 **Initial Training.** Franchisor shall provide, either itself or through its designee, an initial training program to be held at Franchisor's corporate training facility in New Jersey or another place, at the times and places Franchisor shall designate. Virtual training may be utilized in lieu of in person training, at Franchisor's discretion. Franchisor shall schedule an initial training program, at Franchisor's convenience, between the time Franchisee signs this Agreement and the time Franchisee is scheduled to open the Franchised Business. Franchisee, or if Franchisee is a business entity, designated equity owners of Franchisee owning a minimum of the equity interests in Franchisee specified by Franchisor, and Franchisee's designated manager under this Agreement, shall attend and complete the initial training program to Franchisor's satisfaction prior to the opening of the Franchised Business. Franchisee shall be responsible for the personal expenses, including transportation to and from the training site and lodging, meals, and salaries during training, for individuals attending training. Franchisor shall provide tuition-free training initially for 3 persons including Franchisee (or its equity owners) and its designated manager before the Franchised Business opens for business. If initial training is otherwise required for Franchisee or any equity owner, manager or other employee, Franchisee shall pay Franchisor's then-current tuition for each person to attend the additional initial training program. Each of Franchisee's additional and/or replacement managers shall attend and complete to Franchisor's satisfaction Franchisor's initial training program prior to assuming management responsibility.

**4.3.2 Refresher Courses; Supplemental Training.** Franchisor reserves the right to offer refresher courses and supplemental training programs, which may be optional or mandatory, from time to time, to Franchisee, its equity owners if Franchisee is a business entity, its manager and/or its employees. Franchisee shall be responsible for the personal expenses, including transportation to and from the training site and lodging, meals, and salaries during training, for individuals attending any refresher or supplemental training. Franchisee shall pay Franchisor's then-current tuition for any individual attending refresher courses or supplemental training.

**4.3.3 Conferences.** Franchisor may, but is not obligated to, hold annual conferences to discuss sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. Franchisor reserves the right to charge a fee for such conference. Franchisee must pay all its travel and living expenses related to Franchisee's attendance at the conference. These conferences are held at a location chosen by Franchisor. Attendance is mandatory for at least one of Franchisee's previous trainees.

**4.4 Continuing Consultation and Advice.** In addition to the assistance rendered to Franchisee prior to opening, Franchisor shall provide Franchisee continuing consultation and advice as Franchisor deems advisable during the term of this Agreement regarding the provision of services, marketing, sales techniques, personnel development and other business, operational and advertising matters that directly relate to the franchise operation. Such assistance may be provided by telephone, facsimile, email, postings to Franchisor's intranet, periodically through on-site assistance by appropriate personnel of Franchisor, and/or other methods.

**4.5 Operations Manual; Proprietary Software.** Franchisor shall loan or otherwise provide Franchisee access to one copy of a specifications, operations and procedures manual, and one copy of other books, binders, videos or other electronic media, intranet postings and other materials, and appropriate revisions as may be made from time to time, referred to collectively as the "Operations Manual". Franchisee shall operate the Franchised Business in strict compliance with the Operations Manual. From time to time Franchisor may, through changes in the Operations Manual or by other notice to Franchisee, change any standard or specification or any of the Proprietary Marks applicable to the operation of the Franchised Business or change all or any part of the System, and Franchisee shall take all actions, at Franchisee's expense, to implement these changes. Franchisor may vary the standards and specifications to take into account unique features of specific locations or types of locations, special requirements and other factors Franchisor considers relevant in its sole discretion. The Operations Manual shall be confidential and at all times remain the property of Franchisor. Franchisee shall not make any disclosure, duplication or other unauthorized use of any portion of the Operations Manual. The provisions of the Operations Manual constitute provisions of this Agreement as if fully set forth in this Agreement. Franchisee shall ensure that its copy of the Operations Manual is current and up-to-date. If there is a dispute relating to the contents of the Operations Manual, the master copy maintained by Franchisor at its principal office shall be controlling. Franchisor may elect to provide the Operations Manual solely through Franchisor's website(s) and/or intranets or other electronic means without any need to provide Franchisee with a paper copy or other physical format. If Franchisee requires a replacement copy of the Operations Manual, Franchisee will be charged Franchisor's then-current fee for any replacements.

## 5. FRANCHISE SYSTEM STANDARDS

**5.1 Opening for Business.** Franchisee shall not open the Franchised Business for business until (1) Franchisor approves the location as developed according to its specifications and standards; (2) pre-opening training has been completed to Franchisor's satisfaction; (3) the initial franchise fee and all other amounts then due to Franchisor have been paid; (4) Franchisor has been furnished with copies of all required documents, including evidence of all applicable permits, insurance coverage and payment of premiums as it requests; and (5) Franchisor issues written approval to open.

**5.2 Compliance with Standards.** Franchisee acknowledges that its obligations under this Agreement are reasonable, necessary and desirable for the operation of the Franchised Business and the Closet & Storage Concepts System. Franchisee shall adhere to Franchisor's standards and specifications as set forth in this Agreement and the Operations Manual, including, but not limited to, standards, specifications of product and service quality and uniformity, and equipment and software compatibility among individual Closet & Storage Concepts System franchises, and any revisions or amendments. Franchisee shall purchase and use only products and services, including equipment, vehicles, fixtures, software, signs, branded products or services, inventory, supplies, and logo-imprinted products, which Franchisor approves, including purchasing from approved suppliers or a designated sole supplier for any items. Franchisor and its affiliates may be an approved supplier or designated sole supplier for any purchases of products or services. Franchisee may purchase or obtain these products and services through Franchisor or a supplier approved by Franchisor. Franchisee cannot be a supplier to other franchisees and cannot purchase items from another franchisee without Franchisor's express written approval. If Franchisor has not designated an approved supplier for a particular product or service, Franchisee shall purchase these products or services only from suppliers that meet Franchisor's standards and specifications. Franchisee may request approval of a supplier, which may, at Franchisor's option, include inspection of the proposed supplier's facilities and testing of product samples. The independent testing facility Franchisor designates may charge a fee for the testing. Franchisee or the proposed supplier shall pay the test fees. Franchisee must also pay for Franchisor's costs in making a determination on the proposed supplier, including the costs of inspection of the supplier's facilities, evaluation of the test results, and a background check of the supplier. Franchisor reserves the right, at its option, to re-inspect the facilities and products of any approved supplier, and to revoke approval if the supplier fails to continue to meet any of Franchisor's criteria. Franchisor may receive fees and other payments from suppliers and others in connection with Franchisee's purchases and may use the fees for Franchisor's own purposes. Franchisor shall provide Franchisee a standard price list for items which it sells to franchisees, including a description of each item and applicable price or lease terms, prepayment discounts (if any) and shipping charges. Franchisor reserves the right to withhold approval of any supplier for any reason.

### 5.3 Operations.

5.3.1 Franchisee shall operate the Franchised Business for at least those hours and days specified by Franchisor in the Operations Manual and will at all times operate the Franchised Business diligently so as to maximize the revenues and profits therefrom.

5.3.2 Franchisee is not limited to providing services and products to only customers inside of the Territory. However, Franchisee may not market, advertise for and/or solicit for orders outside of the Territory, except as provided under this Agreement. If an installation is to take place within another franchisee's Territory, it is a violation of this Agreement if Franchisee does not notify Franchisor and the affected franchisee before the installation occurs. In the Franchisor's sole discretion, Franchisee may be required to cooperate with that franchisee, share in the installation, share any financial compensation, or give the job to the other franchisee.

5.3.3 Franchisee shall at all times maintain and employ working capital as Franchisor may reasonably deem necessary to enable Franchisee to properly and fully carry out and perform all of its duties, obligations and responsibilities under this Agreement and to operate the business in a businesslike, proper and efficient manner.

5.3.4 Franchisee shall operate the Franchised Business in conformity with the highest ethical standards and sound business practices and in a manner which shall enhance the Closet & Storage Concepts Proprietary Marks and the Closet & Storage Concepts System. Franchisee shall be solely responsible for all employment decisions and functions, including hiring, firing, discipline, supervision, setting terms of employment and compensation and implementing a training program for employees of the Franchised Business in accordance with training standards and procedures Franchisor specifies in order for Franchisee to conduct the business of the Franchised Business at all times in compliance with Franchisor's requirements. Franchisee shall never represent or imply to prospective employees and employees that they shall be or are employed by Franchisor.

5.3.5 The Franchised Business must be properly maintained at all times, including periodic repainting of the exterior and interior and all maintenance and repairs to all fixtures, furnishings, uniforms, signs and equipment to keep and run the Franchised Business as directed by the Operations Manual and otherwise as Franchisor reasonably directs.

5.3.6 Franchisee will at all times give prompt, courteous, and efficient service to the public; will perform work competently and in a workmanlike manner; and in all business dealings with members of the public, will be governed by the highest standards of honesty, integrity, fair dealing, and ethical conduct. Franchisee will do nothing that would tend to discredit, dishonor, reflect adversely upon, or in any manner injure the reputation of Franchisor or any franchisee of the System.

5.3.7 Franchisee acknowledges that a public demand has been created and exists for genuine products carrying certain of the Proprietary Marks and that the public have come and will come to expect that they will be able to obtain the products at an authorized Closet & Storage Concepts Business. Accordingly, Franchisee agrees that Franchisee will at all times during the term of this Agreement maintain an inventory of the products and of such other items which Franchisor may from time to time designate, which is adequate, both in terms of range of the products and other items covered and in terms of the quantities of the products and other items, to fulfill the public demand in Franchisee's market for the

products and other items and to promptly satisfy customers seeking the products and other items at the Franchised Business.

**5.4 Managerial Responsibility.** Subject to the provisions of Sections 5.4.1 of this Section 5.4, it is agreed that at all times during the term of this Agreement, Franchisee (if Franchisee is an individual, or if Franchisee is an entity, its shareholders, partners, members or principals, as the case may be) or Franchisee's duly authorized designated manager (who may or may not be a partner or principal of Franchisee) designated in writing to Franchisor shall: (i) devote his or their full time and effort to the active management and operation of the Franchised Business; (ii) irrespective of any delegation of authority not inconsistent with clause (i), reserve and exercise ultimate authority and responsibility with respect to the management and operation of the Franchised Business; (iii) not engage in or be connected with any other business or activity that interferes with the business under this Agreement; and (iv) represent and act on behalf of Franchisee in all dealings with Franchisor. If two or more individuals are named herein, each of them shall fulfill the requirements of clause (i), and both or all of them shall jointly fulfill the requirements of clauses (ii), (iii) and (iv).

**5.4.1** In the event of the resignation, disability, or death of the individual or individuals referenced under this Section 5.4, the provisions of Article 7 hereof shall govern; provided however, that if two or more individuals are named herein then upon the resignation, disability, or death of one or more but less than all of such individuals, the provisions of Article 7 shall not govern and the provisions of this Section shall apply to the remaining or surviving individual or individuals.

**5.4.2** If required by Franchisor, Franchisee shall cause a designated manager to execute an agreement to be bound by the restrictions set forth in Section 5.7 of this Agreement.

**5.5 Updating Premises.** Franchisee agrees that, in order to maintain a modern, progressive, sanitary and uniform image, Franchisor has the right to require Franchisee to perform remodeling, repairs, replacements and redecoration in and upon the premises of the Approved Location, fixtures, equipment and furnishings Franchisee uses as Franchisor reasonably deems necessary and practical to bring the premises, fixtures, equipment and furnishings up to the then current standards of newly developed System locations (Remodeling Requirements); provided, however, Franchisee shall not be required to make such modifications or improvements more than once every five (5) years or during the initial five (5) years of the term of this Agreement. In addition, in order to introduce new products or services, Franchisee may be required to expend additional amounts on new, different or modified equipment or fixtures necessary to offer such new services or products ("Replacement Requirements").

**5.6 Applicable Laws.** Franchisee shall investigate, keep informed of and comply with all applicable federal, state and local laws, ordinances and regulations regarding the operation of the Franchised Business, including employment, licensing, zoning, and bond requirements. If these legal requirements impose a greater standard or duty than Franchisor requires in the Operations Manual or elsewhere, Franchisee must comply with the greater standard or duty and notify Franchisor in writing promptly after Franchisee becomes aware of the discrepancy. Franchisee shall abide by all applicable laws pertaining to privacy of information collected or maintained regarding customers or other individuals ("Privacy"), and shall comply with Franchisor's standards and policies pertaining to Privacy. If there is a conflict between Franchisor's standards and policies pertaining to Privacy and applicable law, Franchisee shall: (i) comply with the requirements of applicable law; (ii) immediately give Franchisor written notice of said conflict; and (iii) promptly and fully cooperate with Franchisor and its counsel as it may request to

assist in a determination regarding the most effective way, if any, to meet the standards and policies pertaining to Privacy within the bounds of applicable law.

Franchisee has been advised and is aware that certain state and local laws, rules and ordinances require or may require the registration of “Home Improvement Salespersons.” If required by state or local law, Franchisee agrees to register such salespersons, pay any and all required fees, submit all necessary documentation and otherwise comply with such state or local requirements and hold Franchisor harmless therefrom.

If applicable, Franchisee further agrees to register as a “Home Solicitation Salesperson” with the Registrar of the local State Contractors License Board, or other regulating authority and to register any salesperson Franchisee employs, if necessary. Franchisee further agrees that Franchisee shall require all salespersons and other agents and employees to agree to comply with all applicable laws, rules, ordinances and statutes applicable to “Home Solicitation Salespersons,” Contractors, etc.

**5.7 Trade Secrets and Confidential Information.** The System is unique and Franchisee may receive confidential information which may include, without limitation: (i) design specifications; (ii) methods, formats, specifications, standards, systems, procedures, sales and marketing techniques; (iii) knowledge of specifications for and suppliers of, and methods of ordering, certain products, materials, equipment and supplies; (iv) knowledge of the operating results and financial performance of other Closet & Storage Concepts businesses; (v) the Operations Manual; (vi) training materials and programs; (vii) customer data; (viii) all password-protected portions of Franchisor’s website, intranets and extranets and the information they contain (including the email addresses of franchisees); and (ix) specifics regarding the inner workings of computer software, applications or other technology used by the System (“Confidential Information”). Franchisee shall use the Confidential Information only for the purposes and in the manner authorized in writing by Franchisor, and its use shall inure to the benefit of Franchisor. Franchisee shall inform all employees before communicating or divulging any Confidential Information to them of their obligation of confidence. Franchisee shall be liable to Franchisor for the actions of any such individuals with respect to the Confidential Information. In addition, subject to applicable law, Franchisee shall obtain a written agreement in the form attached as Exhibit “3(a)” from Franchisee’s employees and any other person having access to the Operations Manual or to whom Franchisee wishes to disclose any Confidential Information that they shall maintain the confidentiality of the Confidential Information and they shall recognize Franchisor as a third-party beneficiary with the independent right to enforce the covenants either directly in Franchisor’s own name as beneficiary or acting as agent. Spouses of Franchisees must sign the Confidentiality, Non-Disclosure and Non-Competition Agreement in the form attached as Exhibit “3(b)”. All executed agreements must be forwarded to Franchisor. Franchisee hereby appoints Franchisor as its agent with respect to the enforcement of these covenants. Franchisee shall retain all written Confidentiality Agreements with Franchisee’s business records for the time period specified in the Operations Manual. Franchisee shall enforce all covenants and shall give Franchisor notice of any breach or suspected breach of which Franchisee has knowledge.

All data pertaining to the Franchised Business, and all data created or collected by Franchisee in connection with the System, or in connection with operation of the Franchised Business (including without limitation data pertaining to or otherwise concerning customers) is and will be owned exclusively by Franchisor, and Franchisor will have the right to use such data in any manner that it deems appropriate without compensation to Franchisee, including to communicate directly to the



customers of the Franchised Business, and to provide updates, information, newsletters, and special offers to customers. Upon termination of this Agreement, Franchisee shall have no further right to access or use any such information.

Franchisee shall not contest, directly or indirectly, Franchisor's ownership of or right, title or interest in Franchisor's trade secrets, proprietary computer software, copyrighted materials, methods or procedures or contest Franchisor's right to register, use or license others to use any of such trade secrets, proprietary computer software, copyrighted materials, methods and procedures. Franchisee, including its officers, directors, equity owners, and employees, and any of their immediate family, heirs, successors and assigns, is prohibited from using and/or disclosing any Confidential Information in any manner other than as permitted by Franchisor in writing. Any development used by or in connection with the Closet & Storage Concepts System is part of the System and Franchisor's Confidential Information, whether the development is developed by Franchisor, its affiliates, Franchisee, or any other present, former or future Closet & Storage Concepts System franchisee or their employees.

## **5.8 Proprietary Marks.**

**5.8.1 Ownership.** Nothing in this Agreement assigns or grants to Franchisee any right, title or interest in or to the Proprietary Marks, it being understood that all rights relating to the Proprietary Marks are reserved by Franchisor and the owner of the Proprietary Marks who has licensed the Proprietary Marks to Franchisor ("Licensor"), except for Franchisee's license to use the Proprietary Marks only as specifically and expressly provided in this Agreement. Franchisee's use of the Proprietary Marks shall inure to the benefit of Franchisor and its affiliates and Licensor, and Franchisee shall not at any time acquire any rights in the Proprietary Marks. Franchisee shall not challenge the title or rights of Franchisor or its affiliates or Licensor in and to the Proprietary Marks, or do any act to jeopardize or diminish the value of the Proprietary Marks. All goodwill associated with the Proprietary Marks and Franchisor's, its affiliates' and Licensor's copyrighted material, including any goodwill that might be deemed to have arisen through Franchisee's activities, inures directly and exclusively to the benefit of Franchisor, its affiliates and Licensor. Franchisee shall execute from time to time any and all other or further necessary papers, documents, and assurances to effectuate the intent of this Section and shall fully cooperate with Franchisor, its affiliates and Licensor or any other franchisee of Franchisor in securing all necessary and required consents of any government agency or legal authority to the use of any of the Proprietary Marks. Franchisor reserves the right to substitute, add or change the Proprietary Marks for use in identifying the System and the businesses operating under its System if the current Proprietary Marks no longer can be used, or if Franchisor, in its sole discretion, determines that a change of the Proprietary Marks shall be beneficial to the System. Franchisee shall bear the cost and expense of all changes.

**5.8.2 Protection.** Franchisee shall promptly notify Franchisor of any infringement of, or challenge to, the Proprietary Marks, and Franchisor or Licensor, shall in its discretion take the action it deems appropriate. Franchisee must not communicate with any person other than legal counsel, Franchisor and Franchisor's legal representative in connection with any infringement challenge or claim. Franchisor shall indemnify and hold Franchisee harmless from any suits, proceedings, demands, obligations, actions or claims, including costs and reasonable attorneys' fees, for any alleged infringement under federal or state trademark law arising solely from Franchisee's use of the Proprietary Marks in accordance with this Agreement or as otherwise set forth by Franchisor in writing if Franchisee has promptly notified Franchisor of such claim and cooperated in the defense of any claim. If Franchisor or Licensor undertakes the defense or prosecution of any litigation pertaining to any of the Proprietary Marks, Franchisee agrees to execute

any and all documents and do such acts and things as may, in the opinion of counsel for Franchisor or Licensor, be necessary to carry out such defense or prosecution.

**5.8.3 Franchisee's Name.** Franchisee agrees not to use the Proprietary Marks or any part of a Proprietary Mark in its corporate name. The corporate and all fictitious names under which Franchisee proposes to do business must be approved in writing by Franchisor before use. Franchisee shall use its corporate name either alone or followed by the initials "D/B/A" and the business name of Closet & Storage Concepts. Franchisee shall register at the office of the county in which the Franchised Business is located or such other public office as provided for by the laws of the state in which the Franchised Business is located as doing business under such assumed business name.

**5.8.4 Independent Status.** All stationery, business cards and contractual agreements into which Franchisee enters shall contain Franchisee's corporate or fictitious name and a conspicuously displayed notice that Franchisee operates the Franchised Business as an independently owned and operated franchise of Franchisor.

**5.8.5 Authorized and Unauthorized Use.** At Franchisor's direction, Franchisee shall use the Proprietary Marks in conjunction with the symbol "SM," "TM" or "®", as applicable, in order to indicate the registered or unregistered status of the Proprietary Marks. Franchisee shall not use any of the Proprietary Marks in connection with the offer or sale of any unauthorized products or services or in any other manner not explicitly authorized in writing by Franchisor. Franchisee may not use any other marks, names, commercial symbols or logo type in connection with the operation of the Franchised Business.

**5.8.6 Franchisor's Use of Marks.** Franchisor, its affiliates and Licensor may use and register the Proprietary Marks as they deem advisable in their discretion including without limitation, developing and establishing other systems using the same or similar Proprietary Marks alone or in conjunction with other marks and granting licenses and/or franchises in connection with the same or similar Proprietary Marks without providing any rights to Franchisee.

**5.8.7 Electronic Mail and Domain Names.** Except as authorized by Franchisor in writing, Franchisee shall not use the Proprietary Marks, or any abbreviation, variation or other name associated with the Closet & Storage Concepts System as part of any e-mail address, domain name, and/or other identification in any electronic medium. If Franchisor provides Franchisee with an e-mail address, Franchisee must use the supplied e-mail address in all business communications with customers, vendors or suppliers. Franchisor owns all CSC e-mail addresses and has full access to all communications sent and received using those addresses. Franchisor may charge its then-current fee for use of e-mail addresses/mailboxes.

**5.9 Inspection.** During normal business hours and without prior notice, Franchisor or its representatives or agents shall have the right to inspect Franchisee's records, interview Franchisee's customers and observe the manner in which Franchisee operates the Franchised Business.

**5.10 Changes to the System.** Franchisor may, from time to time, change the standards and specifications applicable to operation of the Franchised Business, including standards and specifications for products, services, computer software, inventory, supplies, signs, fixtures, furnishings, technology and equipment, by written notice to Franchisee or through changes in the Operations Manual. Franchisor also may from time to time eliminate and introduce products or services or change the products or services.

Franchisee shall cease offering products and services discontinued by Franchisor immediately, and immediately revise any changed products or services. Franchisee shall commence offering and selling any new products and services within 15 days of notification from Franchisor. Franchisee may incur an increased cost to comply with such changes, and Franchisee shall accept and implement such changes at its own expense as if they were part of the Closet & Storage Concepts System when this Agreement was executed, including discontinuing or modifying the use of or substituting any of the Proprietary Marks or computer software.

#### **5.11 Authorized Services, Products, Supplies and Equipment.**

5.11.1 Franchisee shall offer and sell all services, merchandise and products that Franchisor prescribes and only those services, merchandise and products that Franchisor prescribes. Franchisee shall order the products from any manufacturer, supplier or other Closet and Storage Concepts franchisee recommended by or approved by Franchisor in writing. Franchisee shall comply with all rules and regulations prescribed by federal, state and local agencies. Subject to the requirements of Section 5.2, Franchisee shall have the right to suggest new products, services or other developments to Franchisor for use in Franchisee's and other Closet & Storage Concepts System businesses. Franchisee shall have no right to offer new products or services to the Franchised Business customers or use any new developments until Franchisor has had the opportunity to test the new services or developments and provide Franchisee written approval for their use and standards and specifications with respect to their use. All new services and developments, whether they be of Franchisee's original design or variations of existing services or techniques, shall be deemed works made for hire and Franchisor shall own all rights in them. If these products, services and developments do not qualify as works made for hire, by signing this Agreement Franchisee assigns to Franchisor ownership of any and all rights in these services and developments and the goodwill associated with them. Franchisee shall receive no payment or adjustment from Franchisor in connection with any new products, services or developments.

5.11.2 Franchisor may at any time and from time to time, in its sole discretion, require all of the franchisees in the System, including Franchisee, to discontinue the use of any products, if, in the opinion of Franchisor, the continued use of such product or products becomes unfeasible, unprofitable or otherwise undesirable; upon such discontinuance, the license herein granted with respect to such product or products shall terminate. Such discontinuance or termination of a product or product line by Franchisor is not "cause" for the termination of this Agreement by Franchisor or Franchisee.

5.11.3 Franchisee shall use in the operation of the Franchised Business and in the performance of services only the methods, procedures, services, supplies, equipment vehicles and computer software as are specified by Franchisor in the Operations Manual or otherwise in writing. Franchisee acknowledges and agrees that these may be changed periodically by Franchisor and that Franchisee is obligated to conform to the requirements as so changed.

5.11.4 Franchisor shall have the exclusive right in its sole discretion to vary from the products, services or merchandise in establishing the products, services and merchandise to be offered by the Franchised Business. Complete and detailed uniformity under many varying conditions may not always be possible or practical and Franchisor reserves the right and privilege, at its sole discretion, to vary not only the products, services and merchandise but other standards for any System franchisee based upon the customs or circumstances of a particular site or location, density of population, business potential, population of trade area, existing business practices, or any condition which Franchisor deems to be of

importance to the operation of that franchisee's business.

5.11.5 Franchisee shall obtain and at all times use the equipment, vehicles, software, fixtures and supplies as Franchisor specifies. Prior to opening the Franchised Business, Franchisee shall obtain the equipment, vehicles, software, décor, fixtures and supplies as Franchisor specifies. As any equipment, vehicle, software, fixture or any supplies become obsolete or inoperable, Franchisee shall replace the item with the types and kinds of equipment, vehicles, software, décor, fixtures and supplies then being used by new Closet & Storage Concepts System franchises at the time of replacement. If Franchisor determines that additional or substitute equipment, vehicles, software, décor, fixtures and supplies are needed because of a change in services or merchandise offered or method of providing products or services, Franchisee shall procure the new equipment, vehicles, software, décor, fixtures and supplies within a reasonable time.

5.11.6 Franchisee acknowledges that Franchisor reserves the right to develop proprietary software and/or a backroom computer system for use in connection with the Closet & Storage Concepts System. Franchisee shall acquire computer hardware equipment, computer software, telecommunications infrastructure products and credit card processing equipment and support services as Franchisor reasonably requires in connection with the operation of the Franchised Business and all additions, substitutions and upgrades Franchisor shall specify. Franchisee's computer system must be able to send and receive email and attachments on the Internet and provide access to the World Wide Web and otherwise support Franchisor's then-current information technology system. To the extent that a specific credit card processing services vendor is not designated for use, Franchisee must use a vendor that is compliant with the Payment Card Industry Data Security Standard (PCI DSS).

5.11.7 All services must be provided and all products and merchandise offered in accordance with the standards and specifications contained in the Operations Manual or otherwise.

5.11.8 Franchisor shall in no event be liable to Franchisee for unavailability of or delay in shipment or receipt of any products due to temporary product shortages or unavailabilities, order backlogs, production difficulties, delays in or unavailability of transportation, fire, strikes, work stoppages, or other causes beyond the reasonable control of Franchisor.

5.12 **Pricing.** Franchisor may exercise rights with respect to the pricing of products and services to the fullest extent permitted by then-applicable law. These rights may include (without limitation) prescribing the maximum and/or minimum retail prices which Franchisee may charge customers for products and/or services offered and sold at the Franchised Business; recommending retail prices; advertising specific retail prices for some or all products or services sold by the Franchised Business, which prices Franchisee will be compelled to observe; engaging in marketing, promotional and related campaigns which Franchisee must participate in and which may directly or indirectly impact Franchisee's retail prices; and, otherwise mandating, directly or indirectly, the maximum and/or minimum retail prices which the Franchised Business may charge the public for products and services it offers.

Franchisor may engage in any such activity either periodically or throughout the term of this Agreement. Further, Franchisor may engage in such activity only in certain geographic areas (cities, states, regions) and not others, or with regard to certain subsets of franchisees and not others. Franchisor acknowledges and agrees that any maximum, minimum or other prices Franchisor prescribes or suggests may or may not optimize the revenues or profitability of the Franchised Business and Franchisee

irrevocably waives any and all claims arising from or related to Franchisor's prescription or suggestion of the Franchised Business's retail prices.

Upon the giving by Franchisor of notice of termination of this Agreement under Article 8 of this Agreement, Franchisor shall not be obligated to fill or ship any orders for products theretofore or at any time thereafter received from Franchisee, unless otherwise required by law.

**5.13 Pending Actions.** Franchisee shall notify Franchisor, in writing, within 5 days of the commencement of any action, suit or proceeding and of the issuance of any order, suit or proceeding of any court, agency or other governmental instrumentality which may adversely affect the operation or financial condition of Franchisee or the Franchised Business.

**5.14 Computer Program.**

5.14.1 Franchisor currently maintains a website [www.closetandstorageconcepts.com](http://www.closetandstorageconcepts.com) for use in connection with the System and for the benefit of its franchisees. Franchisor has developed a web-based software program for management of customer relations and/or related activities (hereinafter the "Computer Program") and has implemented the Computer Program into the System. The Computer Program will process and display data related to tracking customer leads, average sales, closing percentages and related customer management information. Franchisee agrees to (i) implement the Computer Program into the Franchised Business and comply with all specifications and standards prescribed by Franchisor regarding the Computer Program as provided from time to time in the Operations Manual; (ii) utilize the Computer Program; and (iii) input the required data. Prior to the commencement of the Franchised Business, Franchisee shall be required to purchase or lease acceptable computer hardware and software with Internet access and e-mail capability to access Franchisor's website and utilize the Computer Program. Franchisor shall have full access to the data supplied by Franchisee to the Computer Program and it may be shared with the System franchisees.

5.14.2 During the Term of this Agreement, Franchisee is authorized to access and use the Computer Program and any other proprietary computer software Franchisor designates for Franchisee's use in the Operations Manual or otherwise (the "Proprietary Computer Software"), solely at the Franchised Business, and in accordance with the Operations Manual. Franchisee shall not sublicense or distribute the Proprietary Computer Software, whether for profit or otherwise, or authorize any other individual or entity to use the Proprietary Computer Software without Franchisor's express written consent. Franchisee shall not use the Proprietary Computer Software or allow it to be used, directly or indirectly, to: (i) engage in unlawful conduct, (ii) infringe any proprietary rights, whether protected by copyright, trademark, trade secret, or otherwise, (iii) defame, threaten, or otherwise violate the rights of others, (iv) publish any inappropriate, profane, obscene, indecent, or unlawful material or information, (v) engage in commercial conduct other than with regard to the Franchised Business, (vi) attempt to decipher, decompile, disassemble or reverse engineer any of the proprietary computer software, or (vii) violate any guidelines relating to the use of the Proprietary Computer Software. The preceding is a non-exhaustive listing of prohibited uses of the Proprietary Computer Software. Franchisee shall sign a license agreement for the Proprietary Computer Software if Franchisor requests. Franchisee must purchase CAD Design Software Keys from Franchisor prior to opening the Franchised Business and must pay annual service/updates.

**5.14.3 FRANCHISEE'S USE OF ANY PROPRIETARY COMPUTER SOFTWARE PROVIDED BY FRANCHISOR OR FRANCHISOR'S DESIGNATED SUPPLIERS,**

INCLUDING ANY INSTALLATION SERVICES, IS AT FRANCHISEE'S OWN RISK. FRANCHISOR MAKES NO REPRESENTATIONS ABOUT THE SUITABILITY, RELIABILITY, USABILITY, AVAILABILITY, TIMELINESS, AND ACCURACY OF THE PROPRIETARY COMPUTER SOFTWARE FOR ANY PURPOSE. FRANCHISOR DOES NOT WARRANT THAT ACCESS TO OR USE OF THE PROPRIETARY COMPUTER SOFTWARE WILL BE UNINTERRUPTED OR ERROR-FREE, THAT USERS WILL BE ABLE TO ACCESS THE PROPRIETARY COMPUTER SOFTWARE AT ANY TIME, OR THAT THE PROPRIETARY COMPUTER SOFTWARE OR RELATED EQUIPMENT WILL MEET ANY PARTICULAR CRITERIA OF PERFORMANCE OR QUALITY. FRANCHISOR DISCLAIMS ALL WARRANTIES AND CONDITIONS WITH REGARD TO THE PROPRIETARY COMPUTER SOFTWARE AND ALL RELATED EQUIPMENT, INCLUDING WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE, OF ACCURACY OR COMPLETENESS OF RESPONSES, OF RESULTS, OF WORKMANLIKE EFFORT, OF LACK OF VIRUSES, AND OF NEGLIGENCE AND THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES, TITLE, AND NON-INFRINGEMENT.

5.15 **Reports.** Franchisee agrees to provide Franchisor with (i) weekly Gross Revenue reports (See Section 3.3.3), (ii) monthly gross sales report (See Section 3.3.5), (iii) annual revenue report and advertising reports on forms provided from time to time by Franchisor according to this Agreement, the Operations Manual and/or Franchisor's current policy and procedures. Such reports shall include all sales generated by Franchisee (including any sales from the Approved Location or otherwise) during the applicable period, shall be complete, shall be filed timely and shall be signed by Franchisee or its designated manager.

## **6. ACKNOWLEDGMENTS OF FRANCHISEE**

6.1 **Independent Contractor Status.** Franchisee is an independent contractor, responsible for full control over the management and daily operation of the Franchised Business, and neither Franchisor nor Franchisee is the agent, principal, partner, employee, employer or joint venturer of the other. Franchisee shall not act or represent itself, directly or by implication, as an agent, partner, employee or joint venturer of Franchisor, nor shall Franchisee incur any obligation on behalf of or in the name of Franchisor.

6.2 **Indemnification.** Franchisee shall defend, indemnify and hold Franchisor and its parents, predecessors, affiliates, and their respective officers, directors, managers, equity owners, independent contractors and employees (the "Indemnified Parties") harmless from all fines, suits, proceedings, claims, demands, liabilities, injuries, damages, expenses, obligations or actions of any kind (including costs and reasonable attorneys' fees) arising in whole or in part from Franchisee's ownership, operation or occupation of the Franchised Business, performance or breach of its obligations under this Agreement, breach of any warranty or representation in this Agreement or from the acts or omissions of Franchisee, its employees or agents, including its advertising, of the Franchised Business, except as otherwise provided in this Agreement. Franchisor and any Indemnified Party shall promptly give Franchisee written notice of any claim for indemnification under this Section 6.2. Any failure to give the notice shall not relieve Franchisee of any liability under this Agreement except to the extent the failure or delay causes actual material prejudice. Franchisor shall have the right to control all litigation, and defend and/or settle any claim against Franchisor or other Indemnified Parties affecting Franchisor's interests, in any manner Franchisor deems appropriate. Franchisor may also retain its own counsel to represent Franchisor or other Indemnified Parties and Franchisee shall either advance or reimburse Franchisor's costs, at Franchisor's discretion.

Franchisor's exercise of this control over the litigation shall not affect its rights to indemnification under this Section 6.2. Franchisee may not consent to the entry of judgment with respect to, or otherwise settle, an indemnified claim without the prior written consent of the applicable Indemnified Parties. Franchisor and the other Indemnified Parties do not have to seek recovery from third parties or otherwise attempt to mitigate losses to maintain a claim to indemnification under this Section 6.2. The provisions of this Section 6.2 shall survive the termination or expiration of this Agreement.

**6.3 Payment of Debts.** Franchisee understands and agrees that it alone, and not Franchisor, is responsible for selecting, retaining and paying its employees; the payment of all invoices for the purchase of inventory and goods and services for use in the Franchised Business; and determining whether, and on what terms, to obtain any financing or credit which Franchisee deems advisable or necessary for the conduct of the Franchised Business.

**6.4 Noncompetition.**

**6.4.1 During the Term of This Agreement.** During the term of this Agreement, neither Franchisee, nor its equity owners shall, directly or indirectly, for itself or through, on behalf of, or in conjunction with any other person, partnership or corporation own, maintain, engage in, be employed by, or have any interest in any other business which offers or sells products or services competitive with those sold or offered under the Closet & Storage Concepts System or the More Space Place System (a "Competing Business").

During the term of this Agreement, regardless of the cause, neither Franchisee, nor its equity owners shall, directly or indirectly, for itself or through, on behalf of, or in conjunction with any other person, partnership or corporation own, maintain, engage in, be employed by, or have any interest in any company which grants franchises or licenses for any business competing in whole or in part with Franchisor.

**6.4.2 After the Term of This Agreement.** For a period of 2 years after the expiration, nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Franchisee, nor its equity owners shall, directly or indirectly, for itself or through, on behalf of, or in conjunction with any other person, partnership or corporation own, maintain, engage in, be employed by, or have any interest in any other Competing Business within the Territory or a radius of 20 miles from the Territory or any other Closet & Storage Concepts or More Space Place company owned or franchised business in operation or for which a franchise agreement has been signed, as of the date of expiration and nonrenewal, transfer or termination of this Agreement; provided, however, Franchisee may continue to operate any other Closet & Storage Concepts or More Space Place franchises for which Franchisee and Franchisor have a current franchise agreement.

For a period of 2 years after the expiration, nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Franchisee, nor its equity owners shall, directly or indirectly, for itself or through, on behalf of, or in conjunction with any other person, partnership or corporation solicit business from customers of Franchisee's former Franchised Business for any competitive business purpose nor solicit any employee of Franchisor or any other Closet & Storage Concepts or More Space Place System franchisee to discontinue his or her employment.

For a period of 2 years after the expiration and nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Franchisee, nor its equity owners shall, directly or indirectly,

for itself or through, on behalf of, or in conjunction with any other person, partnership or corporation own, maintain, engage in, be employed by, or have any interest in any company which grants franchises or licenses for any business competing in whole or in part with Franchisor.

**6.4.3 Intent and Enforcement.** It is the intent of the parties that the provisions of this Section 6.4 shall, to the fullest extent permissible under applicable law, be judicially enforced; accordingly, any reduction in scope or modification of any part of the noncompetition provisions contained in this Agreement shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 6.4 by Franchisee, or any of its equity owners, Franchisor shall be entitled to an injunction restraining such person from any such actual or threatened breach. In the event of the actual or threatened breach of this Section 6.4, Franchisor's harm shall be irreparable and Franchisor shall have no adequate remedy at law to prevent the harm. Franchisee acknowledges and agrees on its own behalf and on behalf of the persons who are liable under Section 6.4.2 that each has previously worked or been gainfully employed in other fields and that the provisions of Section 6.4.2 in no way prevent any of these persons from earning a living. Spouses of Franchisees must sign the Confidentiality, Non-Disclosure and Non-Competition Agreement in the form attached as Exhibit "3(b)".

**6.4.4 Employees.** Franchisee shall require its officers, directors, equity owners, employees (to the extent the employee has received Franchisor's initial training) and members of the immediate family of Franchisee, its officers, directors and equity owners to execute a confidentiality agreement containing provisions similar to those set forth in this Agreement. Our current form of confidentiality agreement is attached to this Agreement as Exhibit "3(a) and 3(b)".

**6.4.5 Publicly-Owned Entity.** This Section 6.4 shall not apply to any ownership by Franchisee or any other person subject to Section 6.4 of a beneficial interest of less than 5% in the outstanding securities or partnership interests in any publicly-held entity.

**6.5 Telephone.** Franchisee shall obtain at its own expense a new telephone number and listing, to be listed under the Closet & Storage Concepts name and not under Franchisee's corporate, partnership, or individual name, to be used exclusively in connection with Franchisee's operation of the Franchised Business. Upon the expiration and nonrenewal, transfer or termination of this Agreement for any reason, Franchisee shall terminate its use of such telephone number and listing and assign same to Franchisor or its designee. The Franchised Business shall be serviced by a suitable telephone system approved by Franchisor. Franchisee shall answer the telephone in the manner set forth by Franchisor in the Operations Manual. Franchisee must execute Franchisor's form of Telephone, Internet Websites and Listing Agreement a copy of which is attached hereto as Exhibit 11.

**6.6 Insurance.** At all times during the term of this Agreement and at its own expense, Franchisee shall obtain and keep in force, and pay the premiums for insurance as required by the Operations Manual or otherwise. Currently, at a minimum, the requirements are: (i) public liability insurance with complete operations coverage and limits of liability for bodily injury of not less than \$1,000,000.00 for each injury and \$1,000,000.00 for property damage in each occurrence; (ii) "all risk coverage" insurance for fire, business interruptions, etc. up to the replacement value of Franchisee's inventory; (iii) if required to do so by law, worker's compensation insurance for all of Franchisee's employees. Defense costs cannot erode policy limits. All insurance policies shall contain a separate endorsement naming Franchisor and its affiliates as additional insureds using ISO form CG2029 or an equivalent endorsement (no blanket additional insured language is acceptable). The policies shall expressly provide that any interest of an



additional insured shall not be affected by Franchisee's breach of any policy provisions or any negligence on the part of an additional insured. All policies shall also include a waiver of subrogation in favor of the additional insureds. All policies shall be written by an insurance carrier accepted in writing by Franchisor. Franchisor's acceptance of an insurance carrier does not constitute Franchisor's representation or guarantee that the insurance carrier shall remain a going concern or capable of meeting claim demands during the term of the insurance policy. No insurance policy shall be subject to cancellation, termination, nonrenewal or material modification, except upon at least 30 days' prior written notice from the insurance carrier to Franchisor. Upon Franchisor's request, Franchisee shall provide Franchisor with a currently issued certificate of insurance evidencing coverage in conformity with the provisions of this Section. If Franchisee fails to comply with at least the minimum insurance requirements set forth by Franchisor, Franchisor may either terminate this Agreement, or obtain the insurance and keep the insurance in force and effect and Franchisee shall pay Franchisor, on demand, the cost of the premium cost and the administrative costs to Franchisor in connection with obtaining the insurance. Franchisor may increase or otherwise modify the minimum insurance requirements upon 30 days' prior written notice to Franchisee, and Franchisee shall comply with any such modification. Policies may be subject to review and approval by an insurance agent designated by Franchisor, at Franchisee's expense. Franchisee's obligation to obtain the required policies in the amounts specified is not limited in any way by any insurance Franchisor maintains. Franchisee's obligation to maintain the insurance does not relieve Franchisee of any liability under the indemnity provisions of Section 6.2. If the lease for the Franchised Business' premises requires Franchisee to purchase insurance with higher limits than those set forth in this paragraph, the lease insurance requirements will control. If Franchisee will be engaging in any construction, renovation or build-out of the premises for the Franchised Business, either Franchisee or Franchisee's third party contractor must have in force for the duration of said project, Commercial General Liability insurance and Worker's Compensation and Employer's Liability insurance in the amounts listed above as well as Builder's Risk insurance in an amount approved by Franchisor.

**6.7 Distribution.** Franchisor or its affiliates may distribute products identified by the Proprietary Marks or other marks owned or licensed by Franchisor or its affiliates through any distribution method which periodically may be established or licensed by Franchisor or its affiliates and may franchise or license others to do so, except as otherwise set forth in this Agreement.

**6.8 Image.** The Closet & Storage Concepts System has been developed to deliver products and services which establish the Franchised Business as a service provider of distinction. Therefore, Franchisor requires Franchisee to offer products and services and conduct the Franchised Business in such a manner which shall serve to emulate and enhance the image intended by Franchisor for the Closet & Storage Concepts System. Each aspect of the Closet & Storage Concepts System is important not only to Franchisee but also Franchisor, its affiliates, licensor and other franchisees of Franchisor in order to maintain the highest operating standards, achieve system wide uniformity and increase the demand for the products sold and services rendered by Closet & Storage Concepts System franchisees, Franchisor and its affiliates. Franchisee shall comply with the standards, specifications and requirements set forth by Franchisor in order to uniformly convey the distinctive image of a Franchised Business.

## 7. SALE OR TRANSFER

7.1 **Consent to Transfer.** Franchisee's rights under this Agreement are personal, and Franchisee shall not sell, transfer, assign or encumber its interest in the Franchised Business without the prior written consent of Franchisor. Any unauthorized transfer by Franchisee shall constitute a material breach of the Agreement and shall be voidable by Franchisor.

7.2 **Death or Disability.** In the event of the death, disability or incapacity of any individual Franchisee or officer or director or member of an incorporated Franchisee or limited liability company or partner of a partnership Franchisee, should the decedent's or disabled or incapacitated person's executor, heir or legal representative, or the business entity, as the case may be, wish to continue as Franchisee under this Agreement, such person shall apply for Franchisor's consent, execute the then-current franchise agreement, and complete the training program to Franchisor's satisfaction, as applicable, as in any other case of a proposed transfer of Franchisee's interest in this Agreement. Such assignment by operation of law shall not be deemed in violation of this Agreement, provided the heirs or legatees or business entity meet the conditions imposed by this Agreement and are acceptable to Franchisor.

If Franchisee is a business entity, this Agreement shall continue in effect upon the death of the largest equity owner, provided that the active management of the business entity shall remain stable and reasonably satisfactory to Franchisor in its sole discretion.

Franchisee's executor, heir or legal representative shall have 180 days from the date of death, disability or incapacity to execute Franchisor's then-current franchise agreement or transfer the franchise rights and business upon the terms and conditions set forth in this Agreement (except that the term shall be the balance of Franchisee's term). At the conclusion of the balance of the term, the new franchisee may exercise any or all of the then applicable renewal rights. Franchisor reserves the right to operate or oversee the operation of the Franchised Business if Franchisor believes, in Franchisor's sole judgment, that the Franchised Business is not being operated in a manner consistent with Franchisor's System or specifications.

7.3 **Ownership Changes.** A sale, transfer or assignment requiring the prior written consent of Franchisor shall be deemed to occur: (i) if Franchisee is a corporation or limited liability company, upon any assignment, sale, pledge or transfer of voting stock or membership interests of Franchisee, or any increase in the number of outstanding shares of voting stock or membership interests of Franchisee; or (ii) if Franchisee is a partnership, upon the assignment, sale, pledge or transfer of any partnership ownership interest. Franchisee shall notify Franchisor of any change in stock ownership, membership interests or partnership ownership interests in Franchisee while this Agreement is in effect which shall result in a sale, transfer or assignment within the meaning of this Section. A transfer to an existing partner, shareholder or member, or a transfer as a result of the death, disability or incapacity of a partner, shareholder or member in accordance with Section 7.2, or a transfer to an inter vivos trust where the transferring Franchisee, partner, shareholder or member is the only grantor beneficiary other than a spouse, shall not be a violation of this Agreement or a ground for termination; any such ownership change shall not be subject to Franchisor's right of first refusal under Section 7.3.1.

**7.3.1 Right of First Refusal.** If Franchisee or its equity owners propose to transfer or assign any of Franchisee's interest in this Agreement or in the business conducted under this Agreement or in Franchisee if Franchisee is a business entity, to any third party (other than a business entity as set forth in Section 7.4 and except as otherwise set forth in Section 7.3) in connection with a bona fide offer from such third party, Franchisee or its equity owners shall first offer to sell to Franchisor, Franchisee's or its equity owners' offered interest. Franchisee or its equity owner shall obtain from the third party offeror an earnest money deposit (of at least 15% of the offering price) and deliver to Franchisor a statement in writing, signed by the offeror and by Franchisee, of the terms of the offer. In the event of Franchisee's insolvency or the filing of any petition by or against Franchisee under any provisions of any bankruptcy or insolvency law, an amount and terms of purchase shall be established by an appraiser chosen by the bankruptcy court or by the chief judge of the federal district court of Franchisee's district and Franchisee or Franchisee's legal representative shall deliver to Franchisor a statement in writing incorporating the appraiser's report. Franchisor shall then have 45 days from its receipt of either statement to accept the offer by delivering written notice of acceptance by Franchisor or its nominee to Franchisee or its equity owner. The acceptance shall be on the same terms as stated in the statement delivered to Franchisor; provided, however, Franchisor or its nominee shall have the right to substitute equivalent cash for any noncash consideration included in the offer. If the parties cannot agree within a reasonable time on the equivalent cash for any noncash consideration, Franchisor shall designate an independent appraiser and the appraiser's determination shall be binding. If Franchisor or its nominee elects not to accept the offer within the 45 day period, Franchisee or its equity owner shall be free for 90 days after such period to complete the transfer described in the statement delivered to Franchisor, but only with the prior written consent of Franchisor and subject to the conditions for approval set forth in Section 7.3.2. Franchisee and its equity owners shall effect no other sale or transfer of this Agreement or Franchisee's interest in this Agreement or the business conducted under this Agreement or the interest in Franchisee, without first offering or reoffering the same to Franchisor in accordance with this Section 7. If in Franchisor's opinion there is a material change in the terms of the offer, the offer shall be deemed a new proposal and Franchisee or its equity owner shall be required to grant Franchisor or its nominee a right of first refusal with respect to such offer.

**7.3.2 Conditions for Approval.** Franchisor may condition its approval of any proposed sale or transfer of the Franchised Business or of Franchisee's interest in this Agreement or of the interest in Franchisee upon satisfaction of the following requirements:

7.3.2.1 All of Franchisee's accrued monetary obligations to Franchisor, its affiliates and any supplier for the Franchised Business have been satisfied;

7.3.2.2 All existing defaults under the Franchise Agreement have been cured within the period permitted for cure;

7.3.2.3 Franchisee and its equity owners if Franchisee is a business entity, has executed a general release under seal, in a form satisfactory to Franchisor of any and all claims against Franchisor and its affiliates and their officers, directors, equity owners, agents, employees, attorneys and accountants in their corporate and individual capacities; provided, however, the release shall not release any liability specifically provided for by any applicable state statute regulating franchising. Our current form or release is attached to this Agreement as Exhibit "5";

7.3.2.4 Franchisee has provided Franchisor a copy of the executed purchase agreement relating to the proposed transfer with all supporting documents and schedules, including

transferee's assumption of and agreement to discharge all of Franchisee's obligations under this Agreement;

7.3.2.5 The transferee has demonstrated to Franchisor's satisfaction that transferee or its designated manager meets Franchisor's managerial and business standards; possesses a good moral character, business reputation and credit rating; has the aptitude and ability to conduct the business to be transferred; and has adequate financial resources and capital to meet the performance obligations of this Agreement; however, transferee shall not be in the same business as Franchisor either as licensor, franchisor, independent operator or licensee of any other business, chain or network which is similar in nature or in competition with Franchisor or Closet & Storage Concepts System franchisees, except that the transferee may be an existing franchisee of Franchisor;

7.3.2.6 The transferee has executed Franchisor's then-current Franchise Agreement;

7.3.2.7 Franchisee or transferee has paid Franchisor a transfer fee equal to 50% of the then current Initial Franchise Fee, subject to a minimum of \$22,250;

7.3.2.8 The transferee and its manager shall complete Franchisor's training program to Franchisor's satisfaction at the transferee's own expense within the time frame set forth by Franchisor; and

7.3.2.9 Franchisee acknowledges and agrees that the post-termination provisions of this Agreement including, without limitation, the noncompetition provisions, shall survive the transfer of the Franchise and Franchisor, Franchisee and the transferee enter into a transfer agreement in the form approved by Franchisor. A copy of Franchisor's current form is attached as Exhibit 9 hereto.

**7.4 Transfer to a Corporation or Limited Liability Company.** If Franchisee is one or more individuals or a partnership, Franchisee may assign its rights under this Agreement to a corporation or limited liability company for convenience of ownership, provided:

7.4.1 The corporation or limited liability corporation is newly organized and its activities are confined to operating the Franchised Business;

7.4.2 Franchisee is, and at all times remains, the owner of at least 51% of the outstanding shares of the corporation or owns a controlling interest in the limited liability company;

7.4.3 The corporation or limited liability company agrees in writing to assume all of Franchisee's obligations under this Agreement and executes an assignment in a form approved by Franchisor. Franchisor's current form is attached hereto as Exhibit 10;

7.4.4 All stockholders of the corporation, or members and managers of the limited liability company, personally guarantee prompt payment and performance by the corporation or limited liability company, as applicable, of all its obligations to Franchisor under the Agreement and execute a noncompetition agreement in the form reasonably acceptable to Franchisor.

7.4.5 Each stock certificate of the corporate franchisee shall have conspicuously endorsed upon its face a statement, in a form satisfactory to Franchisor, that it is held subject to, and that

further assignment or transfer thereof is subject to, all restrictions imposed upon assignments by this Agreement; the operating agreement of any limited liability company and any membership certificates shall contain a similar limitation; and

7.4.6 Franchisee shall promptly provide Franchisor a copy of, as applicable: (i) the transferee corporation's Articles of Incorporation, Bylaws, resolutions including, without limitation, the resolutions of the Board of Directors authorizing entry into this Agreement; or (ii) the limited liability company's certificate of organization; and all other governing documents.

Franchisee is not required to pay Franchisor a transfer fee with respect to a transfer in accordance with this Section 7.4. However, Franchisee shall pay Franchisor's expenses in connection with a transfer under this Section 7.4 if Franchisee has not completed the transfer, including complying with this Section 7, as applicable, within 60 days following the execution of this Agreement but in no event later than the opening of the Franchised Business.

#### **7.5 Secured Interests and Securities.**

7.5.1 Franchisee shall not grant, and shall not permit a transfer in the nature of a grant of, a security interest in this Agreement.

7.5.2 If Franchisee is a corporation, it shall maintain stop transfer instructions against the transfer on its records of any securities with voting rights subject to the restrictions of this Section 7 and shall issue no such securities upon the face of which the following printed legend does not legibly and conspicuously appear:

The transfer of this stock is subject to the terms and conditions of a Franchise Agreement between Closets Unlimited of New Jersey, Inc. and the corporation dated \_\_\_\_\_, 20\_\_\_\_. Reference is made to the Franchise Agreement and to the Articles of Incorporation and Bylaws of this corporation.

7.6 **Transfer by Franchisor.** Franchisor may sell, transfer, assign and/or encumber all or any part of its interest in itself or the Franchise Agreement.

## 8. BREACH AND TERMINATION

8.1 **Termination by Franchisee.** Franchisee may terminate this Agreement for cause if Franchisor is in breach of any material provision of this Agreement, by giving Franchisor written notice within 60 days of the event or circumstances giving rise to the breach. Franchisee must be in material compliance with this Agreement. The notice shall state specifically the nature of the breach and allow Franchisor 90 days after receipt of the notice to correct the breach. Franchisee's failure to give timely written notice of any breach shall be deemed to be a waiver of Franchisee's right to complain of that breach. If Franchisor fails to cure any material breach within the 90 day cure period, Franchisee may terminate this Agreement for that reason by providing written notice to Franchisor, except if the breach is not susceptible to cure within 90 days, but Franchisor takes action within 90 days to begin curing the breach and acts diligently to complete the corrective action within a reasonable time, Franchisor shall be deemed to have timely cured the breach. Franchisee's termination will be effective only if Franchisee signs all documentation that Franchisor requires, including a release. Notice shall be either hand delivered or sent U.S. Mail, postage prepaid, certified mail, return receipt requested or sent by prepaid overnight courier.

8.2 **Termination by Franchisor.** Franchisor may terminate this Agreement under the following circumstances:

8.2.1 **With Cause and With Opportunity to Cure.** If Franchisee is in breach of any material provision of this Agreement not listed in Section 8.2.2, by giving Franchisee written notice of the event or circumstances giving rise to the breach. The notice will state specifically the nature of the breach and allow Franchisee the following amount of time to correct the breach after receipt of notice:

- (a) 7 days if the failure to comply relates to the Proprietary Marks;
- (b) 15 days if the failure relates to Franchisee's failure to make any payment of money to Franchisor or its affiliates; and
- (c) 30 days if the failure relates to any other breach not listed in this Section 8.2.1 or in Section 8.2.2.

If Franchisee fails to cure any material breach within the applicable cure period, Franchisor may terminate this Agreement for that reason by providing written notice to Franchisee, except if the breach is not susceptible to cure within the time permitted, but Franchisee takes action within the time permitted to begin curing the breach and acts diligently to complete the corrective action within a reasonable time, Franchisee shall be deemed to have timely cured the breach. For purposes of this Agreement, Franchisee's alleged breach of this Agreement shall be deemed cured if both Franchisor and Franchisee agree in writing that the alleged breach has been corrected. Notice shall be either hand delivered or sent U.S. Mail, postage prepaid, certified mail, return receipt requested or sent by prepaid overnight courier.

If Franchisee receives more than one default notice within a twelve month period, then Franchisee shall be required to meet with Franchisor at its corporate headquarters, or in Franchisor's sole discretion, via telephone conference. Such meeting shall occur within thirty days of Franchisee's receipt of written notice of the second (or any subsequent) default notice. If Franchisee fails to meet with Franchisor within such thirty day period, Franchisor may terminate this Agreement (even if such defaults have been cured), by providing written notice to Franchisee.

8.2.2 **With Cause and Without Opportunity to Cure.** Franchisor may terminate this Agreement upon written notice without giving Franchisee opportunity to cure for any of the following breaches or defaults:

(a) **Criminal Acts.** If Franchisee or any owner of Franchisee is convicted of or pleads guilty or no contest to a felony or takes part in any criminal misconduct related to the operation of the Franchised Business or which affect the goodwill of the Proprietary Marks.

(b) **Voluntary Bankruptcy.** If Franchisee or any owner of Franchisee makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy, is adjudicated a bankrupt or insolvent, files or acquiesces in the filing of a petition seeking reorganization or arrangement under any federal or state bankruptcy or insolvency law, or consents to or acquiesces in the appointment of a trustee or receiver for Franchisee or the franchise business.

(c) **Involuntary Bankruptcy.** If proceedings are commenced to have Franchisee or any owner of Franchisee adjudicated as bankrupt or to seek a reorganization of Franchisee under any state or federal bankruptcy or insolvency law, and such proceedings are not dismissed within 60 days, or a trustee or receiver is appointed for Franchisee or the franchise business without Franchisee's consent, and the appointment is not vacated within 60 days.

(d) **Liens.** If a levy or writ of attachment or execution or any other lien is placed against Franchisee, any partner of Franchisee if Franchisee is a partnership, or any guarantor of Franchisee under Section 15 or any of their assets which is not released or bonded against within 60 days.

(e) **Insolvency.** If Franchisee, any partner of Franchisee, or the majority equity owner of Franchisee is insolvent.

(f) **Repeated Breaches.** If Franchisor sends Franchisee 3 or more written notices to cure pursuant to Section 8.2.1 in any 12 month period.

(g) **Misrepresentation.** If Franchisee or any owner of Franchisee makes any misrepresentation or omission in connection with Franchisee's franchise application.

(h) **Breach of Other Agreements.** If Franchisee or any partner, director, officer, shareholder or member of Franchisee materially breaches any other agreement with Franchisor or any of its affiliates, or any lease for the premises of the Franchised Business, and does not cure the breach within any permitted period for cure;

(i) **Fraud.** If Franchisee or any owner of Franchisee commits fraud in the operation of the Franchised Business.

(j) **Intentional Underreporting or Misstatement.** If Franchisee or any owner of Franchisee intentionally underreports or misstates any information required to be reported to Franchisor under this Agreement, including but not limited to Gross Revenues required to be

reported under this Agreement, or failure, in whole or in part, to provide Franchisor with information required to be reported.

(k) **Insurance.** If Franchisee fails to maintain any insurance required by this Agreement.

(l) **Confidential Information.** If Franchisee or any owner or spouse of Franchisee engages in the unauthorized use or disclosure of the Confidential Information.

(m) **Invalid Transfers.** Any attempted or purported assignment or transfer of this Agreement not in compliance with this Agreement; provided that if Franchisor does not elect to exercise its right to terminate this Agreement pursuant to this subsection, such inaction shall not be deemed to constitute a consent to such assignment or transfer nor to confer any rights or interest whatever upon the purported assignee or transferee, but this Agreement shall remain binding and in full force and effect as between Franchisor and Franchisee herein unless and until Franchisor elects to terminate the same.

(q) **Purchase or Lease of Approved Location; Opening.** Franchisee's failure to purchase or acquire a lease for the Approved Location or to open the Franchised Business within the required time period;

(r) **Loss of Right to Occupy Approved Location.** The lease or ownership of the Approved Location is terminated or expires and Franchisee does not relocate the Approved Location in accordance with the terms of this Agreement;

(s) **Abandonment.** Voluntary cessation of the Franchised Business, abandonment of the Franchised Business and/or the Approved Location by Franchisee, or the forfeiture by Franchisee of the right to do or transact business in the Territory or in the jurisdiction where the Approved Location is located; provided, however, that this provision shall not apply in cases of Force Majeure (acts of God, strikes, lockouts or other industrial disturbances, war, riot, epidemic, fire or other catastrophe or other forces beyond Franchisee's control) if, through no fault of Franchisee, the premises of the Franchised Business is damaged or destroyed by an event as described above; provided, that Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate or reconstruct the premises (which approval shall not be unreasonably withheld) and Franchisee diligently pursues and completes such reconstruction or relocation within one hundred eighty (180) days from the date of such event. This approval may be conditioned upon the payment of an agreed minimum fee to Franchisor during the period in which the Franchised Business is not in operation.

(t) **Unauthorized Opening.** If Franchisee opens the Franchised Business without obtaining authorization to open.

(u) **Failure to Open.** If Franchisee fails to open the Franchised Business during the time periods set forth in this Agreement or to secure an Approved Location in the time period required.

(v) **Public Health and Safety.** If a threat or danger to public health or safety results



from the maintenance or operation of the Franchised Business or any violation of health or safety law occurs at the Franchised Business.

(w) **Restrictive Covenants.** Upon any violation of any covenants set forth in Section 6.4 of this Agreement.

Notice shall be either hand delivered or sent U.S. Mail, postage prepaid, certified mail, return receipt requested or sent by prepaid overnight courier.

8.3 **Nonwaiver.** Franchisor's delay in exercising or failure to exercise any right or remedy under this Agreement or Franchisor's acceptance of any late or partial payment due under this Agreement or any other agreement between Franchisor and Franchisee or Franchisor's consent to a transfer of any interest in Franchisee shall not constitute a waiver of any of Franchisor's rights or remedies against Franchisee.

## **9. RIGHTS AND DUTIES UPON TERMINATION OR EXPIRATION**

9.1 **Franchisee's Obligations.** Upon termination of this Agreement by either Franchisor or Franchisee, regardless of the cause, and upon expiration, nonrenewal or transfer of this Agreement, Franchisee shall:

9.1.1 Cease immediately all operations under this Agreement;

9.1.2 Pay immediately to Franchisor all unpaid fees and pay Franchisor, its affiliates and any supplier for the Franchised Business all other monies owed them;

9.1.3 Discontinue immediately the use of the Proprietary Marks and any proprietary computer software;

9.1.4 Immediately return the Operations Manual to Franchisor and all other manuals and Confidential Information loaned to Franchisee by Franchisor and immediately cease to use the Confidential Information;

9.1.5 Immediately cease using all telephone numbers and listings used in connection with the operation of the franchise business and direct the telephone company to transfer all such numbers and listings to Franchisor or its designee or, if Franchisor so directs, to disconnect the numbers;

9.1.6 Promptly surrender all stationery, printed matter, signs, advertising materials and other items containing the Proprietary Marks as directed by Franchisor and all items which are a part of the trade dress of the Closet & Storage Concepts System;

9.1.7 Sell to Franchisor or its designee, at Franchisor's option, all inventory in useable form bearing the Proprietary Marks at the original purchase price thereof or at its then-current value if less than the original purchase price, in Franchisor's judgment, within 15 days following the date of termination or expiration;

9.1.8 Assign to Franchisor or its designee, at Franchisor's option, all customer contracts

and deposit monies related to the Franchised Business.

9.1.9 Cease to hold itself out as a franchisee of Franchisor;

9.1.10 Take action necessary to amend or cancel any assumed name, business name or equivalent registration which contains any trade name or other Proprietary Mark licensed by Franchisor and furnish Franchisor evidence satisfactory to Franchisor of compliance with this obligation within 30 calendar days after the termination, expiration or transfer of this Agreement;

9.1.11 Permit Franchisor to make final inspection of Franchisee's financial records, books, and other accounting records within 6 months of the effective date of termination, expiration, or transfer; and

9.1.12 Comply with the post-termination covenants set forth in Section 6.4.2, all of which shall survive the transfer, termination or expiration of this Agreement.

9.1.13 Immediately remove all signage bearing any of the Proprietary Marks from the Premises and any vehicles. If Franchisee fails to properly de-identify the premises or any vehicle, Franchisor will do so and charge Franchisee for its reasonable costs.

9.2 **Power of Attorney.** Franchisor is hereby irrevocably appointed as Franchisee's attorney-in-fact to execute in Franchisee's name and on Franchisee's behalf all documents necessary to discontinue Franchisee's use of the Proprietary Marks and the Confidential Information.

## 10. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be either personally delivered; sent by nationally recognized overnight courier (Ex: FedEx); sent by certified or registered mail, return receipt requested; or sent by email (provided that the sender also sends a copy by certified or registered mail or recognized overnight courier contemporaneously) to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party. Notwithstanding the foregoing, Franchisee's knowledge of a change in Franchisor's principal place of business shall be deemed adequate designation of a change and notice shall be sent to Franchisor's new address.

Franchisee: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Franchisor: The address of its then current principal place of business.

Any notice shall be deemed to have been given at the time of personal delivery or, in the case of email, upon confirmation of receipt (or confirmation of delivery via contemporaneous methods required above, whichever occurs first) or, in the case of overnight courier, on the next business day after mailing, or in the case of registered or certified mail, three (3) business days after the date and time of mailing.

## 11. INTERPRETATION

**11.1 Amendments.** **THIS AGREEMENT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND CANNOT BE CHANGED EXCEPT BY A WRITTEN DOCUMENT SIGNED BY BOTH PARTIES. NOTHING IN THIS AGREEMENT IS INTENDED TO DISCLAIM ANY INFORMATION CONTAINED IN THE FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT.**

**11.2 Choice of Law and Selection of Venue.** This Agreement shall be governed by the laws of the State of New Jersey. Except as set forth in Section 11.3, any action at law or equity instituted against either party to this Agreement shall be commenced in the state and county courts of Franchisor's principal place of business, currently the courts of Camden County, New Jersey or the United States District Court, District of New Jersey. Franchisee acknowledges that this Agreement has been entered into in the State of New Jersey, and that Franchisee is to receive valuable and continuing services emanating from Franchisor's headquarters in New Jersey including but not limited to assistance, support and the development of the System. In recognition of these services and their origin, Franchisee hereby irrevocably consents to the personal jurisdiction of the state and federal courts of New Jersey as set forth above.

**11.3 Injunctive Relief.** Nothing in this Agreement shall prevent Franchisor from obtaining injunctive relief against actual or threatened conduct that shall cause it loss or damages, in any appropriate forum under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions.

**11.4 Construction of Language.** The language of this Agreement shall be construed according to its fair meaning, and not strictly for or against either party. All words in this Agreement refer to whatever number or gender the context requires. If more than one (1) party or person is referred to as Franchisee, their obligations and liabilities shall be joint and several. Headings are for reference purposes and do not control interpretation. Reference to Franchisee's "immediate family" means the spouse, parent, children and siblings of Franchisee and the parents, children and siblings of Franchisee's spouse. The BACKGROUND Section at the beginning of this Agreement contains contractual terms that are not mere recitals.

**11.5 Successors.** References to Franchisor or Franchisee include their successors, assigns or transferees, subject to the limitations of this Agreement.

**11.6 Severability.** If any provision of this Agreement is deemed invalid or inoperative for any reason, that provision shall be deemed modified to the extent necessary to make it valid and operative or, if it cannot be so modified, it shall then be severed, and the remainder of that provision shall continue in full force and effect as if this Agreement had been signed with the invalid portion so modified or eliminated; provided, however, that if any part of this Agreement relating to payments to Franchisor or any of its affiliates or protection of the Proprietary Marks, or the Confidential Information, including the Operations Manual and Franchisor's other trade secrets, is declared invalid or unenforceable, then Franchisor at its option may terminate this Agreement immediately upon written notice to Franchisee.

**11.7 No Right to Offset.** Franchisee shall not withhold all or any part of any payment to Franchisor or any of its affiliates on the grounds of the alleged nonperformance of Franchisor or any of its affiliates or as an offset against any amount Franchisor or any of its affiliates may owe or allegedly owe Franchisee under this Agreement or any related agreements.

**11.8 Force Majeure.** Neither Franchisor, its affiliates nor Franchisee shall be liable for loss or damage or deemed to be in breach of this Agreement or any related agreement if its failure to perform its obligations is not the fault nor within the reasonable control of the person due to perform but results from, without limitation, fire, flood, natural disasters, acts of God, governmental acts or orders, or civil disorders. The parties agree that lack of funds or economic hardship shall not constitute a Force Majeure event. Any delay resulting from any such cause shall extend the time of performance for the period of such delay or for such other reasonable period of time as the parties agree in writing or shall excuse performance, in whole or in part, as Franchisor deems reasonable.

**11.9 Rights Cumulative.** No right or remedy under this Agreement shall be deemed to be exclusive of any other right or remedy under this Agreement or of any right or remedy otherwise provided by law or and equity. Each right and remedy will be cumulative.

**11.10 Parties.** The sole entity against which Franchisee may seek damages or any remedy under law or equity for any claim is Franchisor or its successors or assigns. The equity owners, directors, officers, employees, agents and representatives of Franchisor and of its affiliates shall not be named as a party in any litigation, arbitration or other proceedings commenced by Franchisee if the claim arises out of or relates to this Agreement.

**11.11 LIMITATION OF LIABILITY. TO THE EXTENT PERMITTED BY LAW, IN NO EVENT SHALL FRANCHISOR BE LIABLE FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, PUNITIVE OR ANY OTHER DAMAGES THAT ARE NOT DIRECT DAMAGES, REGARDLESS OF THE NATURE OF THE CLAIM FOR DAMAGES.**

**11.12 JURY TRIAL WAIVER. FRANCHISOR AND FRANCHISEE, RESPECTIVELY, WAIVE ANY RIGHT EITHER MIGHT HAVE TO TRIAL BY JURY ON ANY AND ALL CLAIMS ASSERTED AGAINST THE OTHER. FRANCHISOR AND FRANCHISEE, RESPECTIVELY, EACH ACKNOWLEDGE THAT THEY HAVE HAD A FULL OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL CONCERNING THIS WAIVER, AND THAT THIS WAIVER IS INFORMED, VOLUNTARY, INTENTIONAL AND NOT THE RESULT OF UNEQUAL BARGAINING POWER.**

**11.13 FRANCHISOR AND FRANCHISEE AGREE THAT LITIGATION WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE, BASIS AND THAT FRANCHISOR AND FRANCHISEE SHALL BE THE ONLY PARTIES IN ANY JUDICIAL PROCEEDING DESCRIBED IN SECTION 11.2 OR SECTION 11.3, AND THAT NO SUCH PROCEEDINGS MAY BE CONSOLIDATED WITH ANY OTHER LITIGATION OR ARBITRATION PROCEEDING, NOR SHALL ANY OTHER PERSON BE JOINED AS A PARTY TO SUCH PROCEEDING.**

**11.14 FRANCHISOR APPROVAL AND DISCRETION. TO THE EXTENT THAT FRANCHISOR'S CONSENT OR APPROVAL IS REQUIRED OR ANY DECISION IS SUBJECT TO THE DISCRETION OF THE FRANCHISOR, AND WHENEVER FRANCHISOR**

**EXERCISES A RIGHT, PRESCRIBES AN ACT OR THING, OR OTHERWISE MAKES A CHOICE OR USES DISCRETION, THE PARTIES AGREE THAT FRANCHISOR HAS THE WHOLLY UNRESTRICTED RIGHT TO MAKE DECISIONS AND/OR TAKE (OR REFRAIN FROM TAKING) ACTIONS, EXCEPT THAT FRANCHISOR WILL NOT ACT ARBITRARILY OR UNREASONABLY. HOWEVER, FRANCHISOR WILL NOT BE REQUIRED TO CONSIDER FRANCHISEE'S INDIVIDUAL INTERESTS OR THE INTERESTS OF ANY OTHER PARTICULAR FRANCHISEE(S), EVEN IF A PARTICULAR DECISION/ACTION MAY HAVE NEGATIVE CONSEQUENCES FOR FRANCHISEE, A PARTICULAR FRANCHISEE OR GROUP OF FRANCHISEES.**

**FRANCHISEE ACKNOWLEDGES AND AGREES THAT THE ULTIMATE DECISION-MAKING RESPONSIBILITY WITH RESPECT TO THE SYSTEM (AMONG OTHER THINGS) MUST BE, AS A PRACTICAL BUSINESS MATTER, VESTED SOLELY IN FRANCHISOR, SINCE FRANCHISEE, FRANCHISOR AND ALL OTHER FRANCHISEES HAVE A COLLECTIVE INTEREST IN WORKING WITHIN A FRANCHISE SYSTEM WITH THE UNRESTRICTED FLEXIBILITY TO QUICKLY ADJUST TO CHANGING BUSINESS CONDITIONS, INCLUDING COMPETITIVE CHALLENGES, NEW REGULATORY DEVELOPMENTS AND EMERGING BUSINESS OPPORTUNITIES. FRANCHISEE UNDERSTANDS AND AGREES THAT FRANCHISOR HAVING SUCH RIGHTS ARE CRITICAL TO ITS ROLE AS FRANCHISOR AND TO OBTAIN THE PARTIES GOALS FOR CONTINUING IMPROVEMENT OF THE SYSTEM.**

## **12. REPRESENTATIONS**

**12.1 Receipt. THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THIS AGREEMENT, WITH ALL BLANKS COMPLETED AND WITH ANY AMENDMENTS AND EXHIBITS, AT LEAST 7 CALENDAR DAYS PRIOR TO EXECUTION OF THIS AGREEMENT. IN ADDITION, THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT AT LEAST 14 CALENDAR DAYS PRIOR TO THE EXECUTION OF THIS AGREEMENT OR FRANCHISEE'S PAYMENT OF ANY MONIES TO FRANCHISOR, REFUNDABLE OR OTHERWISE.**

**12.2 Execution Of Agreement. EACH OF THE UNDERSIGNED PARTIES WARRANTS THAT IT HAS THE FULL AUTHORITY TO SIGN AND EXECUTE THIS AGREEMENT. IF FRANCHISEE IS A PARTNERSHIP, CORPORATION OR LIMITED LIABILITY COMPANY, THE PERSON EXECUTING THIS AGREEMENT ON BEHALF OF THE BUSINESS ENTITY WARRANTS TO FRANCHISOR, BOTH INDIVIDUALLY AND IN HIS CAPACITY AS PARTNER, OFFICER, MEMBER OR MANAGER, THAT ALL OF THE EQUITY OWNERS OF FRANCHISEE, AS APPLICABLE, HAVE READ AND APPROVED THIS AGREEMENT, INCLUDING ANY RESTRICTIONS WHICH THIS AGREEMENT PLACES UPON RIGHTS TO TRANSFER THEIR INTEREST IN THE BUSINESS ENTITY. This Agreement becomes valid when signed and accepted by Franchisor. This Agreement may be signed in counterparts, each of which when taken together shall form one valid and effective agreement which may be electronically signed, and any digital or electronic signatures (including pdf or electronically imaged signatures provided by DocuSign or any other digital signature provider) will be treated the same as handwritten signatures for the purposes of validity, enforceability and admissibility, and delivery of any such electronic signature, or a signed copy of this Agreement, may**

**be made by email or other electronic transmission.**

**12.3 Anti-Terrorism Law Compliance.** Neither Franchisee, any equity owner of Franchisee, nor any of its officers, directors, managers, members or employees, is, or at any time shall be named, either directly or by an alias or nickname, on the list of Specially Designated Nationals or Blocked Persons, which includes the names of suspected terrorists, as designated by the United States Department of the Treasury's Office of Foreign Assets Control, currently available at <http://www.ustreas.gov/offices/eotffc/ofac/sdn/index.html>. Franchisee acknowledges that Franchisor intends to comply, and Franchisee must comply, with all prohibitions against corrupt business practices, money laundering and support of terrorist activities, including those contained in the United States Patriot Act (currently available at <http://www.epic.org/privacy/terrorism/hr3162.html>), Executive Order 13224 (currently available at <http://www.ustreas.gov/terrorism.html>), and related United States Treasury regulations and any similar law ("**Anti-Terrorism Law**"). Franchisee shall immediately notify Franchisor of any misrepresentation or breach of this Section 12.3. Franchisor may terminate this Agreement without any opportunity for Franchisee to cure under Section 8.2.2 upon any misrepresentation or breach by Franchisee of this Section 12.3.

### **13. PERSONAL GUARANTEES**

If Franchisee is a corporation, general partnership or limited liability company, or subsequent to execution of this Agreement, Franchisee assigns this Agreement to a corporation, general partnership or limited liability company, all shareholders, all general partners or all members and managers respectively, hereby personally and unconditionally guarantee without notice, demand or presentment the payment of all of Franchisee's monetary and non-monetary obligations under this Agreement as if each were an original party to this Agreement in his or her individual capacity. In addition, all personal guarantors further agree to be bound by the restrictions upon Franchisee's activities upon transfer, termination or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in his or her individual capacity. All personal guarantors shall execute a continuing personal guarantee in the form attached as Exhibit 2.

### **14. OWNERSHIP OF FRANCHISE**

If Franchisee is a corporation, general partnership or limited liability company, or subsequent to execution of this Agreement, Franchisee assigns this Agreement to a corporation, general partnership or limited liability company, the Statement of Ownership Interest attached to this Agreement as Exhibit 8 completely and accurately describes all of the equity owners and their interests in Franchisee. Subject to Franchisor's rights and Franchisee's obligations herein, Franchisee agrees to sign and deliver to Franchisor a revised Statement of Ownership Interest to reflect any permitted changes in the information that it now contains. Franchisee shall promptly provide Franchisor a copy of, as applicable: (i) the transferee corporation's Articles of Incorporation, Bylaws, resolutions including, without limitation, the resolutions of the Board of Directors authorizing entry into this Agreement; or (ii) the limited liability company's certificate of organization or formation, the Operating Agreement; and all other governing documents. If Franchisee is an entity, it must be a single purpose entity and cannot operate any other business using the entity name.

*The next page is the signature page.*

INTENDING TO BE LEGALLY BOUND HEREBY, THE PARTIES HAVE CAUSED THIS AGREEMENT TO BE EXECUTED EFFECTIVE THE DATE FIRST SET FORTH ABOVE.

FRANCHISEE:

\_\_\_\_\_  
(Individual, Partnership, Corporation or LLC Name)

By: \_\_\_\_\_

Title: \_\_\_\_\_

FRANCHISOR:

**CLOSETS UNLIMITED OF NEW JERSEY,  
INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT 1

### INDIVIDUAL FRANCHISE LOCATION/TERRITORY

The Franchise Agreement (the “Agreement”) between Closets Unlimited of New Jersey, Inc. (“Franchisor”) and \_\_\_\_\_ (“Franchisee”) authorizes and obliges Franchisee to search for a site in the following Search Area and to open a Franchised Business in the following Approved Location and Territory:

#### SEARCH AREA, APPROVED LOCATION AND TERRITORY

1. SEARCH AREA

Pursuant to Section 1.2 of the Franchise Agreement, the non-exclusive search area for locating a site for the Franchised Business shall be as follows:

2. APPROVED LOCATION

Pursuant to Section 1.2 of the Franchise Agreement, the Franchised Business shall be located at the following Approved Location:

3. TERRITORY

Pursuant to Section 1.4 of the Franchise Agreement, the Territory shall be:

FRANCHISEE:

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_

FRANCHISOR:

CLOSETS UNLIMITED OF  
NEW JERSEY, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_



## EXHIBIT 2

### PERSONAL GUARANTEE

The undersigned persons designated as “Principals” hereby represent to Closets Unlimited of New Jersey, Inc. (“Franchisor”) that they are all of the shareholders of, or all of the general partners of, all of the members and managers of, \_\_\_\_\_ (“Franchisee”), as the case may be. In consideration of the grant by Franchisor to Franchisee, as provided under the franchise agreement dated \_\_\_\_\_, (the “Franchise Agreement”), each of the undersigned agrees, in consideration of benefits received and to be received by each of them, jointly and severally, and for themselves, their heirs, legal representatives and assigns that they, and each of them, shall be firmly bound by all of the terms, provisions and conditions of the foregoing Franchise Agreement, that they and each of them do unconditionally guarantee the full and timely performance by Franchisee of each and every obligation of Franchisee under the Franchise Agreement, including, without limitation, any indebtedness of Franchisee arising under or by virtue of the Franchise Agreement to Franchisor and/or its affiliate, and that they and each of them shall not permit or cause any change in the percentage of Franchisee owned, directly or indirectly, by any person, without first notifying Franchisor of said proposed transfer and obtaining the prior written consent of Franchisor, following Franchisor’s transfer procedures and without first paying or causing to be paid to Franchisor any required transfer fee. The undersigned further agree to be bound by the in-term and post-termination covenants of the Franchise Agreement including, without limitation, those relating to confidentiality and non-competition. The undersigned also agree that the governing law and methods for resolution of disputes which govern this Guarantee shall be the same as those outlined in the Franchise Agreement.

**EACH GUARANTOR ACKNOWLEDGES THAT HE OR SHE HAS READ THIS PERSONAL GUARANTEE, UNDERSTANDS ITS TERMS, AND GUARANTOR WOULD NOT SIGN THIS PERSONAL GUARANTEE IF GUARANTOR DID NOT UNDERSTAND AND AGREE TO BE BOUND BY ITS TERMS.**

#### Principals:

By: \_\_\_\_\_  
Print Name

By: \_\_\_\_\_  
Print Name

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**EXHIBIT 3(a)**

**CONFIDENTIALITY AGREEMENT**  
**(For employees of the Franchisee)**

1. Pursuant to a Franchise Agreement dated \_\_\_\_\_, 20\_\_ (the “Franchise Agreement”), \_\_\_\_\_ (the “Franchisee”) has acquired the right and franchise from Closets Unlimited of New Jersey, Inc. (the “Company”) to establish and operate a Closet & Storage Concepts business (the “Franchised Business”) and the right to use in the operation of the Franchised Business the Company’s trade names, service marks, trademarks, logos, emblems, and indicia of origin (the “Proprietary Marks”), as they may be changed, improved and further developed from time to time in the Company’s sole discretion.

2. The Company, as the result of the expenditure of time, skill, effort and resources, has developed and owns a distinctive format and system (the “System”) relating to the establishment and operation of Closet & Storage Concepts businesses. The Company possesses certain proprietary and confidential information relating to the operation of the System, which includes proprietary trade secrets, specifications, security protocols, computer hardware and systems, technology and equipment used, methods of business practices and management, research and development, training processes, operational manuals, presentation materials, vendor agreements, supplier lists, vendor lists, marketing and merchandising strategies, plans for new product or service offerings, and knowledge of, and experience in, the operation of the Franchised Business (the “Confidential Information”). Confidential Information shall also expressly include all customer and franchisee personal and business information that I obtain or have access to during my employment, as well as the confidential information of any other third parties to whom the Company owes a duty of confidentiality. Further, any and all information, knowledge, know-how, and techniques which the Company specifically designates as confidential shall be deemed to be Confidential Information for purposes of this Agreement.

3. In consideration for my access to the Confidential Information as part of my employment with Franchisee, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree to the terms of this Confidentiality and Non-Disclosure Agreement (the “Agreement”).

4. As an employee of Franchisee, the Company and/or Franchisee may disclose the Confidential Information to me via training programs, the Company’s Confidential Operations Manuals (the “Manuals”), or the development process during the term of my employment with the Franchisee.

5. I will not acquire any interest in the Confidential Information, other than the right to utilize it in performing my duties for Franchisee during the term of my employment and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition. I covenant that I will not forward or provide the Confidential Information to any third party, nor store it on any personal or third-party electronic device, disk, drive, or otherwise, unless expressly

authorized to do so by the Company.

6. Any work performed by me during my employment with Franchisee in relation to Closet & Storage Concepts or the Franchise Agreement and any derivative works created by me using the Confidential Information or any proprietary information of the Company are considered “works made for hire” and I will have no ownership interest in the items created.

7. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties as an employee of Franchisee, and will continue not to disclose or use any such information even after I cease to be employed by Franchisee, unless I can demonstrate that such information has become generally known to the public or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement, a breach of the employees or associates of Franchisee, or a breach of my own duties or the duties hereunder.

8. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. In the event any provision of this Agreement is ever deemed to exceed the limits permitted by any applicable law, the provisions set forth herein will be reformed to the extent necessary to make them reasonable and enforceable. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of the remaining provisions, all of which are severable and will be given full force and effect.

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

10. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with Franchisee. I am aware that my violation of this Agreement may cause the Company and Franchisee irreparable harm; therefore, I acknowledge and agree that Franchisee and/or the Company may apply for the issuance of an injunction preventing me from violating this Agreement, without the necessity of proving actual damages or posting a bond, in addition to any other remedies available to them, and I agree to pay Franchisee and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to Franchisee and the Company, any claim I have against Franchisee or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

11. This is not a contract for employment and does not guaranty my employment for any set period of time. I agree and understand that Franchisee is my employer and I have no employment relationship with the Company.

12. Except for an action seeking injunctive or other equitable relief all claims, disputes or controversies that may arise concerning this Agreement, or the construction, performance, or breach of this Agreement, whether based on contract, tort, statute or any other theory, will be submitted to and adjudicated, determined and resolved through compulsory, binding arbitration, unless prohibited by law.

Matters shall be decided on an individual basis, and not on a class-wide or multiple plaintiff basis or in an action where any party hereto acts in a representative capacity, unless prohibited by law. The parties hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the American Arbitration Association (“AAA”) for any action or proceeding arising out of or relating to this Agreement, which will be governed in accordance with its Employment Arbitration Rules, to the extent such rules are not inconsistent with the provisions of this arbitration provision and unless otherwise mutually agreed by the parties or prohibited by law. **The parties agree that any such arbitration will be final and binding and in agreeing to arbitration, the parties understand that they are waiving their respective rights to seek remedies in court, including the right to a jury trial.** In any arbitration, each party is solely responsible for payment of the fees and expenses of his, her or its counsel fees, and each party shall pay their required share of arbitration costs. Notwithstanding any choice of law or other provision herein, the parties agree and acknowledge that the Federal Arbitration Act shall govern the interpretation and enforcement of this provision and the proceedings hereunder. To the extent state law is applicable under the Federal Arbitration Act, the laws of the state of New Jersey shall apply. The statute of limitations of the state of New Jersey shall be strictly enforced. The arbitration shall be conducted in Camden County, New Jersey by one (1) arbitrator.

13. In the event any action for equitable relief, injunctive relief or specific performance is filed, or should any action be filed to confirm, modify or vacate any award rendered through compulsory binding arbitration, or otherwise, I hereby irrevocably agree that the forum for any such suit will lie with a court of competent jurisdiction in Camden County or the applicable federal district court and hereby agree to the personal jurisdiction and venue of such courts.

14. This Agreement will be binding upon me, my heirs, and personal representatives, and shall inure to the benefit of Company and Franchisee and any of their affiliates, parents, subsidiaries, successors and assigns. I understand that this Agreement may and will be assigned or transferred to any successor of the Company, and any successor will be deemed substituted, for all purposes, as the “Company” under the terms of this Agreement. As used in this Agreement the term “successor” will mean any person, firm, corporation, or business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets of the business of the Company. I acknowledge that the services to be rendered by me in my employment are unique and personal. Accordingly, I may not assign any of my rights nor delegate any of my duties or obligations under this Agreement.

15. This Agreement may not be modified except by a written agreement executed by the Parties, which has been approved by the Company.

16. This Agreement may be signed in counterparts, each of which when taken together shall form one valid and effective agreement which may be electronically signed, and any digital or electronic signatures (including pdf or electronically imaged signatures provided by DocuSign or any other digital signature provider) will be treated the same as handwritten signatures for the purposes of validity, enforceability and admissibility, and delivery of any such electronic signature, or a signed copy of this Agreement, may be made by email or other electronic transmission.

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Dated:

**FRANCHISEE**

By: \_\_\_\_\_

Name:

Title:

Dated: \_\_\_\_\_

## **EXHIBIT 3(b)**

### **CONFIDENTIALITY, NON-DISCLOSURE AND NON-COMPETITION AGREEMENT** **(for non-affiliated spouses of Franchisee/Franchisee's owners)**

1. Pursuant to a Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ (the "Franchise Agreement"), \_\_\_\_\_ (the "Franchisee") has acquired the right and franchise from Closets Unlimited of New Jersey, Inc. (the "Company") to establish and operate a Closet & Storage Concepts business (the "Franchised Business") and the right to use in the operation of the Franchised Business the Company's trade names, service marks, trademarks, logos, emblems, and indicia of origin (the "Proprietary Marks"), as they may be changed, improved and further developed from time to time in the Company's sole discretion.

2. The Company, as the result of the expenditure of time, skill, effort and resources, has developed and owns a distinctive format and system (the "System") relating to the establishment and operation of Closet & Storage Concepts businesses. The Company possesses certain proprietary and confidential information relating to the operation of the System, which includes proprietary trade secrets, specifications, security protocols, computer hardware and systems, technology and equipment used, methods of business practices and management, research and development, training processes, operational manuals, presentation materials, vendor agreements, supplier lists, vendor lists, marketing and merchandising strategies, plans for new product or service offerings, and knowledge of, and experience in, the operation of the Franchised Business (the "Confidential Information"). Confidential Information shall also expressly include all customer and franchisee personal and business information that I obtain or have access to during my employment, as well as the confidential information of any other third parties to whom the Company owes a duty of confidentiality. Further, any and all information, knowledge, know-how, and techniques which the Company specifically designates as confidential shall be deemed to be Confidential Information for purposes of this Agreement.

3. In consideration for my access to the Confidential Information and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree to the terms of this Confidentiality and Non-Disclosure and Non-Competition Agreement (the "Agreement").

4. I will not acquire any interest in the Confidential Information, other than the right to utilize it in providing assistance for Franchisee during the term of the Franchise Agreement and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition. I covenant that I will not forward or provide the Confidential Information to any third party, nor store it on any personal or third-party electronic device, disk, drive, or otherwise, unless expressly authorized to do so by the Company.

5. Any work performed by me during my spouse's affiliation with Franchisee in relation to Closet & Storage Concepts or the Franchise Agreement and any derivative works created by me using the Confidential Information or any proprietary information of the Company are considered "works made for hire" and I will have no ownership interest in the items created.

6. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with assistance provided by me to the Franchisee, and will continue not to disclose or use any such information even after my spouse ceases to be affiliated with Franchisee, unless I can demonstrate that such information has become generally known to the public or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement, a breach of the employees or associates of Franchisee, or a breach of my own duties or the duties hereunder.

7. Except as otherwise approved in writing by the Company, I shall not, during my spouse's association with the Franchisee, either directly or indirectly for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation (i) own, maintain, engage in, be employed by, or have any interest in any other business which offers services competitive with those sold or offered under the Closet & Storage Concepts or More Space Place System (a "Competing Business"); or (ii) own, maintain, engage in, be employed by or have any interest in any company that grants licenses or franchises for a Competing Business. Further, for a continuous uninterrupted period commencing upon the expiration or termination of the Franchise Agreement or my spouse's affiliation with the Franchisee (whichever occurs first), regardless of the cause for termination, and continuing for two (2) years, I shall not either directly or indirectly, for myself or through, on behalf of, or in conjunction with any person, persons, partnership, or corporation, (i) own, maintain, engage in, be employed by or have any interest in a Competing Business within the Territory or a radius of 20 miles from the Territory or any Closet & Storage Concepts or More Space Place company owned or franchised business in operation or for which a franchise agreement has been signed; (ii) own, maintain, engage in, be employed by or have any interest in any company that grants licenses or franchises for a Competing Business; (iii) solicit business from customers of Franchisee's former Franchised Business for any competitive business purpose; or (iv) solicit any employee of Franchisor or any other Closet & Storage Concepts or More Space Place System franchisee to discontinue his or her employment.

The prohibitions in this Paragraph 7 do not apply to my spouse's continuing interests in or activities performed in connection with a Franchised Business that is still in operation.

8. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. In the event any provision of this Agreement is ever deemed to exceed the limits permitted by any applicable law, the provisions set forth herein will be reformed to the extent necessary to make them reasonable and enforceable. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of the remaining provisions, all of which are severable and will be given full force and effect.

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

10. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with Franchisee. I am aware that my violation of this Agreement may cause the Company

and Franchisee irreparable harm; therefore, I acknowledge and agree that Franchisee and/or the Company may apply for the issuance of an injunction preventing me from violating this Agreement, without the necessity of proving actual damages or posting a bond, in addition to any other remedies available to them, and I agree to pay Franchisee and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to Franchisee and the Company, any claim I have against Franchisee or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

11. This is not a contract for employment and does not guaranty my employment for any set period of time.

12. Except for an action seeking injunctive or other equitable relief all claims, disputes or controversies that may arise concerning this Agreement, or the construction, performance, or breach of this Agreement, whether based on contract, tort, statute or any other theory, will be submitted to and adjudicated, determined and resolved through compulsory, binding arbitration, unless prohibited by law. Matters shall be decided on an individual basis, and not on a class-wide or multiple plaintiff basis or in an action where any party hereto acts in a representative capacity, unless prohibited by law. The parties hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the American Arbitration Association (“AAA”) for any action or proceeding arising out of or relating to this Agreement, which will be governed in accordance with its Commercial Arbitration Rules, to the extent such rules are not inconsistent with the provisions of this arbitration provision and unless otherwise mutually agreed by the parties or prohibited by law. **The parties agree that any such arbitration will be final and binding and in agreeing to arbitration, the parties understand that they are waiving their respective rights to seek remedies in court, including the right to a jury trial.** In any arbitration, each party is solely responsible for payment of the fees and expenses of his, her or its counsel fees, and each party shall pay their required share of arbitration costs. Notwithstanding any choice of law or other provision herein, the parties agree and acknowledge that the Federal Arbitration Act shall govern the interpretation and enforcement of this provision and the proceedings hereunder. To the extent state law is applicable under the Federal Arbitration Act, the laws of the state of New Jersey shall apply. The statute of limitations of the state of New Jersey shall be strictly enforced. The arbitration shall be conducted in Camden County, New Jersey by one (1) arbitrator.

13. In the event any action for equitable relief, injunctive relief or specific performance is filed, or should any action be filed to confirm, modify or vacate any award rendered through compulsory binding arbitration, or otherwise, I hereby irrevocably agree that the forum for any such suit will lie with a court of competent jurisdiction in Camden County or the applicable federal district court and hereby agree to the personal jurisdiction and venue of such courts.

14. This Agreement will be binding upon me, my heirs, and personal representatives, and shall inure to the benefit of Company and Franchisee and any of their affiliates, parents, subsidiaries, successors and assigns. I understand that this Agreement may and will be assigned or transferred to any successor of the Company, and any successor will be deemed substituted, for all purposes, as the “Company” under the terms of this Agreement. As used in this Agreement the term “successor” will mean any person, firm, corporation, or business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets of the business of the Company. I acknowledge I may not assign any of



my rights nor delegate any of my duties or obligations under this Agreement.

15. This Agreement may not be modified except by a written agreement executed by the Parties, which has been approved by the Company.

16. This Agreement may be signed in counterparts, each of which when taken together shall form one valid and effective agreement which may be electronically signed, and any digital or electronic signatures (including pdf or electronically imaged signatures provided by DocuSign or any other digital signature provider) will be treated the same as handwritten signatures for the purposes of validity, enforceability and admissibility, and delivery of any such electronic signature, or a signed copy of this Agreement, may be made by email or other electronic transmission.

\_\_\_\_\_  
Name:  
Dated:\_\_\_\_\_

**FRANCHISEE**

By: \_\_\_\_\_  
Name:  
Title:  
Dated: \_\_\_\_\_

## EXHIBIT 4

### BUSINESS LOCATION AGREEMENT

The Location of the Business shall be at: \_\_\_\_\_.

FRANCHISEE HAS MADE THE FINAL DECISION TO ESTABLISH THE FRANCHISED BUSINESS AT THE ABOVE LOCATION BASED UPON FRANCHISEE'S INDEPENDENT INVESTIGATION AND EVALUATION OF THE LOCATION.

FRANCHISOR'S AUTHORIZED SIGNATURE BELOW SHALL SIGNIFY APPROVAL OF THE LOCATION. FRANCHISOR'S APPROVAL IS BASED, IN LARGE PART, ON INFORMATION RECEIVED FROM FRANCHISEE FOLLOWING FRANCHISEE'S INVESTIGATION OF THE LOCATION.

FURTHER, ASSISTANCE BY FRANCHISOR MUST NOT BE INTERPRETED AS A REPLACEMENT FOR LEGAL COUNSEL. FRANCHISOR STRONGLY RECOMMENDS THAT FRANCHISEE CONSULT WITH AN ATTORNEY WHO IS EXPERIENCED IN REVIEWING COMMERCIAL LEASES.

FRANCHISOR MAKES NO REPRESENTATION OF ANY KIND THAT ANY PLANS IT PROVIDES AND ANY GUIDANCE IT OFFERS ARE IN CONFORMANCE WITH LOCAL BUILDING CODES, ORDINANCES, PERMIT REQUIREMENTS, LEASE, SUBLEASE OR ANY DEED RESTRICTIONS OR REQUIREMENTS (the "LOCAL REQUIREMENTS"). FRANCHISEE'S AUTHORIZED SIGNATURE BELOW SHALL SIGNIFY ACCEPTANCE OF ANY PLANS OR GUIDANCE PROVIDED BY FRANCHISOR TO WHICH FRANCHISEE SHALL ADHERE TO IN THE CONSTRUCTION OR RENOVATION OF THE BUSINESS LOCATION AT FRANCHISEE'S EXPENSE, MODIFIED ONLY SO AS TO COMPLY WITH SUCH LOCAL REQUIREMENTS. COMPLIANCE WITH SUCH LOCAL REQUIREMENTS SHALL AT ALL TIMES TO BE SOLE OBLIGATION AND RESPONSIBILITY OF FRANCHISEE.

FRANCHISEE SHALL BEAR THE EXPENSE OF DEVELOPING ITS LOCATION ACCORDING TO THE PLANS OR GUIDANCE WHICH FRANCHISOR MAY PROVIDE.

Dated: \_\_\_\_\_, 20\_\_\_\_

FRANCHISEE:

(Individual, Partnership, Corporation or LLC Name)

By: \_\_\_\_\_

Title: \_\_\_\_\_

FRANCHISOR:

CLOSETS UNLIMITED OF  
NEW JERSEY, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT 5**  
**FORM OF GENERAL RELEASE**  
**(Subject to Change)**

THIS AGREEMENT ("Agreement") is made and entered into as of the date executed by the Franchisor ("Effective Date") by and between CLOSETS UNLIMITED OF NEW JERSEY, INC., a New Jersey corporation having its principal place of business located at 436 Commerce Lane, Suite D, West Berlin, NJ 08091 (the "Franchisor"), and \_\_\_\_\_, with an address of \_\_\_\_\_ ("Franchisee").

WHEREAS, Franchisor and Franchisee entered into a franchise agreement dated \_\_\_\_\_ (the "Franchise Agreement") which provides Franchisee with the right to operate a franchised business with a Territory as outlined on Exhibit 1 to the Franchise Agreement (the "Franchised Business");

Wherein the parties hereto, in exchange for good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, and in reliance upon the representations, warranties, and comments herein set forth, do agree as follows:

1. Franchisee acknowledges and agrees that by entering into this Agreement, all of Franchisee's respective rights under the Franchise Agreement are terminated as of the Effective Date, however, Franchisee shall continue to be bound by the post-termination restrictions and covenants contained in the Franchise Agreement and any schedules attached thereto, which include, but are not limited to, covenants relating to Franchisor's confidential information and intellectual property, a covenant not to compete, a covenant of non-disparagement and a covenant of indemnification. Further, Franchisee shall honor all obligations required upon termination, including those listed in Section 9 of the Franchise Agreement.
2. Franchisee on his/her/its own behalf and on behalf of his/her/its servants, employees, heirs, successors and assigns does hereby release Franchisor, its officers, directors, shareholders, agents, parents, affiliates, subsidiaries, servants, employees, franchisees, partners, members, heirs, successors, principals and assigns ("Franchisor Released Parties"), from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, judgments, liabilities and obligations, both fixed and contingent, known and unknown, in law or in equity, under local law, state or federal law or regulation, from the beginning of time to this date, arising under or in connection with the Franchise Agreement of the business operated pursuant to the Franchise Agreement. Without limiting the generality of the foregoing, but by way of example only, the release shall apply to any and all state and federal antitrust, securities, breach of contract, fiduciary duty, or fraud claims and causes of action arising under or in connection with the Franchise Agreement to the extent permitted by law.
3. Franchisee has either been advised by independent counsel before signing this or, acknowledging the need for independent counsel, knowingly waives any such review and advice.
4. The governing law, methods of dispute resolution and any right to recovery of attorney's fees outlined in the Franchise Agreement shall apply to this Agreement as well.

5. This Agreement and the other documents referred to herein contain the entire agreement between the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, except those contemplated hereunder. Any waiver, alteration or modification of any of the provisions of this Agreement or cancellation or replacement of this Agreement shall not be valid unless in writing and signed by the parties.

6. This Agreement shall be binding upon Franchisee and Franchisee's heirs and personal representatives and shall inure to the benefit of Franchisor and its respective successors and assigns.

7. Any waiver of any term of this Agreement by Franchisor will not operate as a waiver of any other term of this Agreement nor will any failure to enforce any provision of this Agreement operate as a waiver of Franchisor's right to enforce any other provision of this Agreement.

8. In the event any provision of this Agreement is ever deemed to exceed the limits permitted by any applicable law, the provisions set forth herein will be reformed to the extent necessary to make them reasonable and enforceable. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of the remaining provisions, all of which are severable and will be given full force and effect.

9. This Agreement may be signed in counterparts, each of which when taken together shall form one valid and effective agreement which may be electronically signed, and any digital or electronic signatures (including pdf or electronically imaged signatures provided by DocuSign or any other digital signature provider) will be treated the same as handwritten signatures for the purposes of validity, enforceability and admissibility, and delivery of any such electronic signature, or a signed copy of this Agreement, may be made by email or other electronic transmission.

10. Franchisee must maintain the confidentiality of this Agreement and shall not disclose the terms of this Agreement to any person or persons, except (a) professional advisors for legitimate business purposes or as required by law, or (b) as otherwise permitted in writing by Franchisor, or (c) as reasonably necessary for enforcement of any rights and remedies pursuant to this Agreement. Nothing in this Agreement will prohibit Franchisee, when required pursuant to a lawfully issued subpoena or discovery request or demand from government or police agency, from complying with the requirements of law with such subpoena, discovery, demand or request; provided, however, that Franchisee will, unless restricted from doing so by the terms of the subpoena or other circumstances or requested not to do so by the government or police agency (for example a gag order or law or rule that prohibits Franchisee from doing the following or request from government or police agency) provide Franchisor written notice, with time to seek relief if it wishes from disclosure pursuant to the subpoena, within one week of receipt of the subpoena.

In Witness Whereof, the parties hereby execute this Release.

FRANCHISOR

FRANCHISEE

By:  
Name:  
Title:  
Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Name:  
Title:  
Dated: \_\_\_\_\_

## EXHIBIT 6

### COLLATERAL ASSIGNMENT OF LEASE

**FOR VALUE RECEIVED**, the undersigned ("Assignor") assigns and transfers to CLOSETS UNLIMITED OF NEW JERSEY, INC., a New Jersey corporation ("Assignee"), all of Assignor's right, title and interest as tenant in, to and under that certain lease, a copy of which is attached hereto as Exhibit "A" (the "Lease") respecting premises commonly known as \_\_\_\_\_. This Assignment is for collateral purposes only and except as specified in this Agreement, Assignee shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee takes possession of the premises demised by the Lease pursuant to the terms hereof and assumes the obligations of Assignor thereunder.

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

Upon a default by Assignor under the Lease or under the franchise agreement between Assignee and Assignor for the operation of a Closet & Storage Concepts business (the "Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, Assignee shall have the right and is hereby empowered to take possession of the premises demised by the Lease, expel Assignor there from, and, in such event, Assignor shall have no further right, title or interest in the Lease.

Assignor agrees that it shall not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any renewals thereto, Assignor agrees that it shall elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that the option must be exercised, unless Assignee otherwise agrees in writing. If Assignee does not otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place and stead of Assignor for the purpose of effecting such extension or renewal.

Witness

ASSIGNOR:  
(Individual, Partnership, Corporation or LLC Name)

By: \_\_\_\_\_

Title: \_\_\_\_\_

ASSIGNEE:  
CLOSETS UNLIMITED OF NEW JERSEY, INC

By: \_\_\_\_\_

Title: \_\_\_\_\_

## **CONSENT AND AGREEMENT OF LESSOR**

The undersigned Lessor under the aforescribed Lease hereby:

- (a) Agrees to notify Assignee in writing of and upon the failure of Assignor to cure any default by Assignor under the Lease;
- (b) Agrees that Assignee shall have the right, but shall not be obligated, to cure any default by Assignor under the Lease within 30 days after delivery by Lessor of notice thereof in accordance with Section (a) above;
- (c) Consents to the foregoing Collateral Assignment and agrees that if Assignee takes possession of the premises demised by the Lease and confirms to Lessor the assumption of the Lease by Assignee as tenant there under, Lessor shall recognize Assignee as tenant under the Lease, provided that Assignee cures within the 30-day period the defaults, if any, of Assignor under the Lease;
- (d) Agrees that Assignee may further assign the Lease to a person, firm or corporation who shall agree to assume the tenant's obligations under the Lease and who is reasonably acceptable to Lessor and upon such assignment Assignee shall have no further liability or obligation under the Lease as assignee, tenant or otherwise.
- (e) On termination or expiration of the Franchise Agreement or the Lease, Assignee shall have the right to re-enter the Premises and make all necessary modifications or alterations to the Premises including the removal of all articles which display Assignee's Proprietary Marks. Assignee's re-entry shall not be deemed as trespassing.

DATED:

LESSOR:

\_\_\_\_\_

ASSIGNEE:

CLOSETS UNLIMITED OF NEW JERSEY, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT 7

### DISCLOSURE QUESTIONNAIRE

As you know, you and CLOSETS UNLIMITED OF NEW JERSEY, INC., a New Jersey corporation (“Franchisor”) are entering into a Franchise Agreement (the “Franchise Agreement”) for the operation of a Closet & Storage Concepts business (the “Franchised Business”).

Please review each of the following questions and statements carefully and provide honest and complete responses to each.

#### **Acknowledgments and Representations**

1. Did you receive a copy of the Franchise Agreement with any unilateral material changes made by us at least seven calendar days prior to the date on which the Franchise Agreement was executed? Check one: ☐ Yes. ☐ No If no, please comment:  
\_\_\_\_\_
2. Did you receive a copy of Franchisor’s Franchise Disclosure Document (and all exhibits and attachments at least 14 calendar days prior to signing the Franchise Agreement or paying any consideration to the Franchisor (10 business days for Michigan; the earlier of 10 business days or the first personal meeting for New York; and the earlier of 14 calendar days or the first personal meeting for Iowa)? Check one: ☐ Yes. ☐ No If no, please comment:  
\_\_\_\_\_
3. Are you seeking to enter into the Franchise Agreement in connection with a purchase or transfer of an existing Franchised Business from an existing Franchisee? Check one: ☐ Yes ☐ No  
\_\_\_\_\_
4. You had your first face-to-face meeting with a Franchisor representative on \_\_\_\_\_  
(please list the date).
5. Did you sign a receipt for the Disclosure Document indicating the date you received it? Check one: ☐ Yes ☐ No  
\_\_\_\_\_
6. Have you paid any money to the Franchisor concerning the purchase of this franchise prior to today? Check one: ☐ Yes ☐ No. If Yes, please list the date.



- 
7. Have you spoken to any other franchisee(s) of this system before deciding to purchase this franchise? Check one: ☐ Yes ☐ No. If so, who?
- 

8. Do you understand that that the Franchise granted is for the right to develop one Franchised Business only in your Territory, and that Franchisor has the right, subject only to the limited rights granted to you under the Franchise Agreement, to issue Franchises or licenses or operate competing businesses for or at locations, as Franchisor determines, near your Franchised Business? Check one: ☐ Yes ☐ No. If no, please comment:
- 

9. You further acknowledge that Executive Order 13224 (the “Executive Order”) prohibits transactions with terrorists and terrorist organizations and that the United States government has adopted, and in the future may adopt, other anti-terrorism measures (the “Anti-Terrorism Measures”). The Franchisor therefore requires certain certifications that the parties with whom it deals are not directly involved in terrorism. For that reason, you hereby certify that neither you nor any of your employees, agents or representatives, nor any other person or entity associated with you, is:

- (i) a person or entity listed in the Annex to the Executive Order;
- (ii) a person or entity otherwise determined by the Executive Order to have committed acts of terrorism or to pose a significant risk of committing acts of terrorism;
- (iii) a person or entity who assists, sponsors, or supports terrorists or acts of terrorism; or
- (iv) owned or controlled by terrorists or sponsors of terrorism.

You further covenant that neither you nor any of your employees, agents or representatives, nor any other person or entity associated with you, will during the term of the Franchise Agreement become a person or entity described above or otherwise become a target of any Anti-Terrorism Measure.

10. Please list all states in which the undersigned are residents: \_\_\_\_\_.

**YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO FRANCHISOR AND THAT FRANCHISOR WILL RELY ON THEM. BY SIGNING THIS DOCUMENT, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY. IF MORE SPACE IS NEEDED FOR ANY ANSWER, CONTINUE ON A SEPARATE SHEET AND ATTACH.**

**NOTE: IF THE FRANCHISEE IS A CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY OR OTHER ENTITY, EACH OF ITS OWNERS MUST EXECUTE THIS ACKNOWLEDGMENT.**

Signed: \_\_\_\_\_  
Date: \_\_\_\_\_

Signed: \_\_\_\_\_  
Date: \_\_\_\_\_

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

**EXHIBIT 8**

**STATEMENT OF OWNERSHIP INTEREST**

**Franchisee Owners**

1. **Form of Owner.** (Choose (a) or (b))

(a) **Individual Proprietorship.** List individual(s):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(b) **Corporation, Limited Liability Company, or Partnership:**

Name: \_\_\_\_\_

Date of incorporation or formation: \_\_\_\_\_

State of incorporation or formation: \_\_\_\_\_

The following is a list of your directors/managers/officers, as applicable, and officers as of the date of execution:

**Name of Each Director/Manager/Officer**

**Position(s) Held**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

2. **Principals**. The following list includes the full name of each person or entity who is one of your owners and fully describes the nature of each owner's interest (attach additional pages if necessary).

	<b><u>Principal's Name</u></b>	<b><u>Percentage/Description of Interest</u></b>
(a)	_____	_____
(b)	_____	_____

3. **Identification of Operating Principal**. Your Operating Principal is \_\_\_\_\_ (must be one of the individuals listed in paragraph 2 above. You may not change the Operating Principal without prior written approval. The Operating Principal is the person authorized to receive communications regarding this Agreement).

Address: \_\_\_\_\_  
\_\_\_\_\_

E-mail Address: \_\_\_\_\_

**FRANCHISEE**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Dated: \_\_\_\_\_

## EXHIBIT 9

### CONSENT TO TRANSFER

#### FORM OF TRANSFER AGREEMENT

This Transfer Agreement (this “Agreement”) is made and entered into as of the date executed by Franchisor (the “Effective Date”) by and among CLOSETS UNLIMITED OF NEW JERSEY, INC, a New Jersey corporation having its principal place of business located at 436 Commerce Lane, Suite D, West Berlin, NJ 08091 (“Franchisor”), \_\_\_\_\_ (“Transferor”), \_\_\_\_\_ (collectively “Transferor Guarantors”), \_\_\_\_\_ (“Transferee”) and \_\_\_\_\_ (“Transferee Guarantors”).

#### WITNESSETH:

**WHEREAS**, a Franchise Agreement dated \_\_\_\_\_ (the “Franchise Agreement”) was executed by and between Franchisor on the one hand, and Transferor on the other, for the operation of a franchised business in the Territory as outlined on Exhibit 1 to the Franchise Agreement (the “Franchised Business”).

**WHEREAS**, Transferor desires to transfer to Transferee substantially all of the assets of the Franchised Business, and Transferor has requested that Franchisor consent to the transfer thereof to Transferee. This Agreement is executed and delivered simultaneously with, and as a condition of the closing of the sale of the assets of the Franchised Business.

**NOW, THEREFORE**, in consideration of the mutual covenants and conditions herein contained, and other good and valuable consideration, receipt of which is hereby acknowledged by each of the parties hereto, the parties agree as follows:

#### AGREEMENT:

1. **Recitals Included in Agreement.** The parties incorporate into this Agreement the recitals set forth above as if set forth in full.

2. **Consent.** Franchisor hereby consents to and waives any right of first refusal in connection with the sale of the Franchised Business and the transfer by Transferor to Transferee (the “Transaction”), subject to the terms of this Agreement. Franchisor’s consent to the Transaction is subject to and made in reliance upon the following terms, conditions, representations and warranties. Transferor’s and/or Transferee’s failure to comply with the terms of this Agreement will result in a default and render the Transaction void:

A. Transferor represents, warrants, covenants and agrees that each of the following are true and correct as of its date of execution, and shall remain true through the Closing (as defined herein):

(1) Transferor is the sole owner of, and possesses good and marketable right, title and interest

in and to, the Franchised Business; and no other person or entity owns or has any right, title or interest in and to the Franchise Agreement and/or the Franchised Business.

(2) Transferor's Guarantors are the sole owners of Transferor, and no other person or entity has an equity or beneficial ownership interest in Transferor.

(3) The execution and delivery of this Agreement and the consummation of the Transaction do not conflict with or result in a breach of the terms and conditions of, accelerate any provision of, or constitute a default under, the certificate of formation or operating agreement of Transferor, or any lease, contract, promissory note or agreement to which Transferor is a party or is bound.

(4) Transferor and Transferor's Guarantors acknowledge and agree that by entering into this Agreement, all of Transferor's rights under the Franchise Agreement will be terminated as of the Closing however, Transferor and Transferor's Guarantors shall continue to be bound by the post-termination restrictions and covenants contained in the Franchise Agreement and any schedules attached thereto.

B. Transferee represents, warrants, covenants and agrees that each of the following are true and correct as of its respective date of execution, and shall remain true through the Closing:

(1) Transferee will be the sole owner of and possess good and marketable right, title and interest in and to the Franchised Business, and no other person or entity will own or have any right, title or interest in and to the Franchise Agreement and/or the Franchised Business. Transferee will be taking over the Franchise Agreement for the remainder of its term [OR WILL BE EXECUTING A NEW FRANCHISE AGREEMENT]. Transferee's ownership composition is set forth on Schedule 1, attached hereto.

(2) The execution and delivery of this Agreement and the consummation of the Transaction do not conflict with or result in a breach of the terms and conditions of, accelerate any provision of, or constitute a default under, the certificate of formation or operating agreement of Transferee, or any lease, contract, promissory note or agreement to which Transferee or Transferee's Guarantors are a party or are bound. Transferee's Guarantors will execute the Guaranty attached as Schedule 2.

(3) Transferee relied solely and exclusively on Transferee's own independent investigation of the franchise system and of the Franchised Business and the historical financial records of the Franchised Business provided to Transferee by Transferor; and based on the receipt of the actual historical performance of the Franchised Business it would not be reasonable to rely on the financial performance representation contained in Franchisor's Franchise Disclosure Document, or any other financial performance representation, pro forma or projection that differed or diverged, in whole or in part, from the Franchised Business' actual historical financial performance.

C. To the extent not already completed, Transferee (or Transferee's Guarantors, if an entity) and any required employees shall attend and complete, to the satisfaction of Franchisor, Franchisor's training program required of new franchisees, at the time directed by Franchisor.

D. Transferee represents, warrants, covenants and agrees that all information furnished or to be furnished to Franchisor by Transferee in connection with Transferee's request to receive a transfer is and will be, as of the date such information is furnished, and through the date of the

Closing, true and correct in all material respects and will include all material facts necessary to make the information not misleading in light of the circumstances.

E. Transferor and Transferee represent, warrant and agree that, subject to Franchisor's consent, Transferor will sell and transfer, and Transferee will acquire, the Franchised Business and that all legal actions necessary to effect the sale and transfer have been or will be accomplished prior to or at Closing.

F. Effective as of the day and time Transferee takes title of the Franchised Business ("Closing"), Transferee expressly agrees to be bound by and observe and faithfully perform all of the obligations, agreements, commitments and duties of the Transferor so that Transferee can operate the Franchised Business as of the Closing, but no sooner than the Closing. Only Transferor will have the right to operate the Franchised Business until Closing, unless otherwise expressly agreed in writing.

G. Transferee will not be required to pay an initial franchise fee, however a transfer fee will be charged in the amount of \_\_\_\_\_.

3. **Transferor and Transferor's Guarantor's Release.** Transferor, Transferor's Guarantors and their respective officers, directors, shareholders, agents, parents, affiliates, subsidiaries, servants, employees, partners, members, heirs, successors, assigns and principals do hereby release Franchisor, its officers, directors, shareholders, agents, parents, affiliates, subsidiaries, servants, employees, partners, members, heirs, successors, principals and assigns ("Franchisor Released Parties"), from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, judgments, liabilities and obligations, both fixed and contingent, known and unknown, in law or in equity, under local law, state or federal law or regulation which they had, from the beginning of time to the date of execution, arising under or in connection with the Franchise Agreement or operation of the Franchised Business. Without limiting the generality of the foregoing, but by way of example only, the release shall apply to any and all state and federal antitrust, securities, breach of contract, fiduciary duty, or fraud claims and causes of action arising under or in connection with the Franchise Agreement, unless prohibited by law.

4. **Assignment of Franchise Agreement.** Transferor hereby assigns and transfers over to Transferee all right, title and interest in and to the Franchise Agreement and any addendums and applicable exhibits, as of the Closing (IF A NEW AGREEMENT IS NOT BEING SIGNED). Transferee agrees to assume all of Transferor's obligations, agreements, commitments, and duties under the Franchise Agreement, and agrees to be bound by and observe and faithfully perform all of the obligations, agreements, commitments and duties of the Franchisee thereunder with the same force and effect as if the Franchise Agreement were originally written with Transferee as Franchisee.

5. **No Security Interests in the Assets of Transferee.** The parties acknowledge and agree that Transferor is not permitted to retain a security interest in the assets of the Franchised Business or the franchise without Franchisor's prior consent.

6. **Non-Participation.** Transferor, Transferor's Guarantors, Transferee's Guarantors and Transferee jointly and severally, acknowledge and agree that, except for the preparation and execution of this Agreement, Franchisor has not participated in the Transaction between them and, therefore, has no knowledge of, and does not attest to, the accuracy of any representations or

warranties made by or between Transferor and Transferee in connection with this transfer. Franchisor assumes no obligations in that regard. Transferor acknowledges and agrees that the sale of the Franchised Business is for Transferor's own account.

7. **Insurance.** Prior to Closing, Transferee must provide Franchisor with a Certificate of Insurance for the insurance coverages specified in the franchise agreement, which policy(ies) must name Franchisor and all related parties as an additional insured.

8. **Changed Circumstances.** All parties understand and acknowledge that Franchisor may, in the future, approve offerings and transfers under different terms, conditions and policies. Franchisor's consent and waiver in this instance shall not be relied upon in future transactions as indicative of Franchisor's position or the conditions that might be attached to future consents or waivers of its right of first refusal.

9. **Singular Consent.** Transferor and Transferee acknowledge and agree that Franchisor's execution of this Agreement is not intended to provide, and shall not be construed as providing, Franchisor's consent with regard to a transfer of any right or interest under any other agreement not specifically identified in this Agreement. Such consent must be separately obtained.

10. **Validity.** If any material provision or restriction contained herein shall be declared void or unenforceable under applicable law, the parties agree that such provision or restriction will be reformed to the extent necessary to make it valid and enforceable. To the extent a provision cannot be reformed, it shall be stricken, and the remainder of this Agreement will continue in full force and effect. Notwithstanding this Paragraph, however, the parties agree that, to the extent Franchisor suffers harm as a consequence of the striking of such provision or restriction, the other parties to this Agreement shall exercise best efforts to make Franchisor whole.

11. **Indemnification.** Transferor and Transferor's Guarantors, jointly and severally, agree to indemnify, defend and hold harmless Franchisor and its predecessors, parents, successors and affiliates and any of their principals, owners, shareholders, employees or agents from and against any claims, losses, liabilities, costs or damages incurred by them as a result of or in connection with the transfer to Transferee or any dispute between Transferor and Transferee.

12. **Counterparts.** This Agreement may be signed in counterparts, each of which when taken together shall form one valid and effective agreement which may be electronically signed, and any digital or electronic signatures (including pdf or electronically imaged signatures provided by DocuSign or any other digital signature provider) will be treated the same as handwritten signatures for the purposes of validity, enforceability and admissibility, and delivery of any such electronic signature, or a signed copy of this Agreement, may be made by email or other electronic transmission.

13. **Miscellaneous.** The parties hereto agree that this Agreement constitutes, upon the execution of this Agreement by all of the parties and after it has been accepted and executed by Franchisor, the complete understanding between the parties regarding the subject matter hereof, and no representation, agreement, warranties, or statement, oral or in writing, not contained herein, shall be of any force and effect against any party, except the Franchise Agreement and its addendums and exhibits shall remain in force in the manner, and to the extent, contemplated herein, and this Agreement shall not be modified, altered or amended except in writing signed by all parties. The waiver by any party of any breach or violation of any provision of this Agreement will not



operate or be construed as a waiver of any other or subsequent breach or violation hereof. This Agreement will be binding upon and inure to the benefit of the parties, and their respective heirs, executors, successors and assigns. The governing law and methods of dispute resolution in the Franchise Agreement shall govern this Agreement as well.

14. **Agreement Survives Closing.** All representations, warranties, terms and conditions set forth in this Agreement shall survive the execution and delivery of this Agreement, the Closing, and the consummation of the Transaction provided for herein.

15. **Review of Agreement and Representation.** Transferor, Transferor's Guarantors, Transferee's Guarantors and Transferee each represent and acknowledge that he/she/it has received, read and understands this Agreement, including its exhibits; and that Franchisor has fully and adequately explained the provisions to each to their satisfaction; and that Franchisor has afforded each of them ample time and opportunity to consult with advisors of their own choosing about the potential benefits and risks of entering into this Agreement.

**I HAVE READ THE ABOVE AGREEMENT. I WOULD NOT SIGN THIS AGREEMENT, IF I DID NOT UNDERSTAND IT AND AGREE TO BE BOUND BY ITS TERMS.**

**FRANCHISOR:**

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

**By:** \_\_\_\_\_

**Name:**

**Dated:** \_\_\_\_\_

**TRANSFEROR:**

**By:** \_\_\_\_\_

**Name:**

**Title:**

**Dated:** \_\_\_\_\_

**TRANSFEROR'S GUARANTORS:**

\_\_\_\_\_  
**Name:**

**Dated:** \_\_\_\_\_

**TRANSFEE:**

**By:** \_\_\_\_\_

**Name:**

**Title:**

**Dated:** \_\_\_\_\_

**TRANSFeree'S GUARANTORS:**

\_\_\_\_\_  
**Name:**

**Dated:** \_\_\_\_\_

## SCHEDULE 1

### FRANCHISEE IDENTIFICATION AND OWNERSHIP

#### Transferee Owners

1. **Form of Owner.** (Choose (a) or (b))

(a) **Individual Proprietorship.** List individual(s):

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(b) **Corporation, Limited Liability Company, or Partnership:**

Name: \_\_\_\_\_

Date of incorporation or formation: \_\_\_\_\_

State of incorporation or formation: \_\_\_\_\_

The following is a list of your directors/managers/officers, as applicable, and officers as of the date of execution:

#### **Name of Each Director/Manager/Officer**

#### **Position(s) Held**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

2. **Principals.** The following list includes the full name of each person or entity who is one of your owners and fully describes the nature of each owner's interest (attach additional pages if necessary).

#### **Principal's Name**

#### **Percentage/Description of Interest**

(a) _____	_____
(b) _____	_____

(c) \_\_\_\_\_  
(d) \_\_\_\_\_

3. **Identification of Operating Principal.** Your Operating Principal is \_\_\_\_\_  
\_\_\_\_\_ (must be one of the individuals listed in paragraph 2 above. You may not change  
the Operating Principal without prior written approval. The Operating Principal is the person authorized  
to receive communications regarding this Agreement).

Address: \_\_\_\_\_  
\_\_\_\_\_

E-mail Address: \_\_\_\_\_

**FRANCHISEE**

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_

**CLOESTS UNLIMITED OF NEW JERSEY,  
INC.**

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_

## SCHEDULE 2

### GUARANTY

The undersigned persons designated as “Principals” hereby represent to Closets Unlimited of New Jersey, Inc. (“Franchisor”) that they are all of the shareholders of, or all of the general partners of, all of the members and managers of, \_\_\_\_\_ (“Franchisee”), as the case may be. In consideration of the grant by Franchisor to \_\_\_\_\_, as provided under the franchise agreement dated \_\_\_\_\_, [and later transferred to Franchisee] (the “Franchise Agreement”), each of the undersigned agrees, in consideration of benefits received and to be received by each of them, jointly and severally, and for themselves, their heirs, legal representatives and assigns that they, and each of them, shall be firmly bound by all of the terms, provisions and conditions of the foregoing Franchise Agreement, that they and each of them do unconditionally guarantee the full and timely performance by Franchisee of each and every obligation of Franchisee under the Franchise Agreement, including, without limitation, any indebtedness of Franchisee arising under or by virtue of the Franchise Agreement to Franchisor and/or its affiliate, and that they and each of them shall not permit or cause any change in the percentage of Franchisee owned, directly or indirectly, by any person, without first notifying Franchisor of said proposed transfer and obtaining the prior written consent of Franchisor, following Franchisor’s transfer procedures and without first paying or causing to be paid to Franchisor any required transfer fee. The undersigned further agree to be bound by the in-term and post-termination covenants of the Franchise Agreement including, without limitation, those relating to confidentiality and non-competition. The undersigned also agree that the governing law and methods for resolution of disputes which govern this Guaranty shall be the same as those outlined in the Franchise Agreement.

**EACH GUARANTOR ACKNOWLEDGES THAT HE OR SHE HAS READ THIS PERSONAL GUARANTY, UNDERSTANDS ITS TERMS, AND GUARANTOR WOULD NOT SIGN THIS PERSONAL GUARANTY IF GUARANTOR DID NOT UNDERSTAND AND AGREE TO BE BOUND BY ITS TERMS.**

#### Principals:

By: \_\_\_\_\_  
Print Name

By: \_\_\_\_\_  
Print Name

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## EXHIBIT 10

### ASSIGNMENT AND ASSUMPTION AGREEMENT

#### (PARTNERSHIP, CORPORATION or LIMITED LIABILITY COMPANY)

THIS ASSUMPTION AND ASSIGNMENT AGREEMENT (the “**Agreement**”) is made and entered into as of the date this Agreement is executed by Franchisor (the “**Effective Date**”) by and among CLOSETS UNLIMITED OF NEW JERSEY, INC, a New Jersey corporation having its principal place of business located at 436 Commerce Lane, Suite D, West Berlin, NJ 08091 (“**Franchisor**”), \_\_\_\_\_ an individual with an address at \_\_\_\_\_ (“**Assignor**”), and \_\_\_\_\_ (“**Assignee**”).

### BACKGROUND

A. Assignor and Franchisor entered into a certain Franchise Agreement dated \_\_\_\_\_ (the “**Franchise Agreement**”) whereby Assignor was given the right and undertook the obligation to operate a Closet & Storage Concepts Franchised Business (the “**Franchised Business**”) in the Territory listed on Exhibit 1 to the Franchise Agreement.

B. Assignor has organized and incorporated Assignee for the convenience and sole purpose of owning and operating the Franchised Business.

C. Assignor desires to assign the rights and obligations under the Franchise Agreement to Assignee pursuant to and in accordance with the provisions of the Franchise Agreement.

D. Franchisor is willing to consent to the assignment of the Franchise Agreement to Assignee, subject to the terms and conditions of this Agreement, including the agreement by Assignor to guarantee the performance by Assignee of its obligations under the Franchise Agreement.

### AGREEMENT

In consideration of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, and intending to be legally bound, the parties agree as follows:

1. Assignor hereby assigns and transfers over to Assignee all right, title and interest in and to the Franchise Agreement, effective as of the Effective Date.

2. Assignee hereby assumes all of Assignor’s obligations, agreements, commitments, duties and liabilities under the Franchise Agreement, and agrees to be bound by and observe and faithfully perform all of the obligations, agreements, commitments and duties of the Franchisee thereunder with the same force and effect as if the Franchise Agreement were originally written with Assignee as Franchisee.

3. Exhibit A to this Agreement lists all of Assignee’s owners and their interests in Assignee as of the Effective Date. Assignee agrees that it and its owners will sign and deliver to Franchisor a revised

Exhibit A to reflect any permitted changes in the information that Exhibit A now contains.

4. The Assignor as an owner of Assignee and in consideration of benefits received and to be received, shall sign and deliver to Franchisor a personal guaranty in the form attached as Exhibit B to this Agreement.

5. Assignor, for himself/herself and his/her agents, servants, employees, partners, members, heirs, predecessors, successors and assigns does hereby release Franchisor, its officers, directors, shareholders, agents, affiliates, subsidiaries, servants, employees, partners, members, heirs, successors and assigns, from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, judgments, liabilities and obligations, both fixed and contingent, known and unknown, in law or in equity, under local law, state or federal law or regulation which he/she had, from the beginning of time to this date, arising under or in connection with the Franchise Agreement.

6. Assignee agrees that the Franchised Business which Assignee will operate will be the only business Assignee operates (although Assignor may have other, non-competitive business interests).

7. This Agreement shall be binding upon and inure to the benefit of the parties and their heirs, successors and assigns.

8. The governing law and methods of dispute resolution in the Franchise Agreement shall govern this Agreement as well.

9. This Agreement, and the documents referenced herein, shall constitute the entire integrated agreement between the parties with respect to the subject matter contained herein and shall supersede any prior agreements, verbal or written. This Agreement shall not be subject to change, modification, amendment or addition without the express written consent of all the parties.

10. If Franchisor retains the services of legal counsel to enforce the terms of this Agreement, Franchisor shall be entitled to recover all costs and expenses, including travel, reasonable attorney, expert and investigative fees, incurred in enforcing the terms of this Agreement.

11. Each party declares that the terms of this Agreement have been completely read and are fully understood and voluntarily accepted by each party, after having a reasonable opportunity to retain and confer with counsel.

12. The obligations of Assignor and Assignee under this Agreement shall be joint and several.

**I HAVE READ THE ABOVE AGREEMENT AND UNDERSTAND ITS TERMS. I WOULD NOT SIGN THIS AGREEMENT IF I DID NOT UNDERSTAND AND AGREE TO BE BOUND BY ITS TERMS.**

ASSIGNOR:

\_\_\_\_\_

Dated: \_\_\_\_\_

ASSIGNEE:

By: \_\_\_\_\_

Name:

Title:

Dated: \_\_\_\_\_

FRANCHISOR:

CLOSETS UNLIMITED OF NEW JERSEY,  
INC.

By: \_\_\_\_\_

Name:

Title:

Dated: \_\_\_\_\_



**EXHIBIT A TO CLOSETS UNLIMITED OF NEW JERSEY, INC.  
ASSUMPTION AND ASSIGNMENT AGREEMENT**

**Franchisee Owners**

1. **Form of Owner.** (Choose (a) or (b))

(a) **Individual Proprietorship.** List individual(s):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(b) **Corporation, Limited Liability Company, or Partnership:**

Name: \_\_\_\_\_

Date of incorporation or formation: \_\_\_\_\_

State of incorporation of formation: \_\_\_\_\_

The following is a list of your directors/managers/officers, as applicable, and officers as of the date of execution:

**Name of Each Director/Manager/Officer**

**Position(s) Held**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

2. **Principals.** The following list includes the full name of each person or entity who is one of your owners and fully describes the nature of each owner's interest (attach additional pages if necessary).

**Principal's Name**

**Percentage/Description of Interest**

(a) _____	_____
(b) _____	_____

(c) \_\_\_\_\_

(d) \_\_\_\_\_

3. **Identification of Operating Principal.** Your Operating Principal is \_\_\_\_\_  
\_\_\_\_\_ (must be one of the individuals listed in paragraph 2 above. You may not change  
the Operating Principal without prior written approval. The Operating Principal is the person authorized  
to receive communications regarding this Agreement).

Address: \_\_\_\_\_  
\_\_\_\_\_

E-mail Address: \_\_\_\_\_

**FRANCHISEE**

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_

**CLOSETS UNLIMITED OF NEW JERSEY,  
INC.**

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_

**EXHIBIT B TO CLOSETS UNLIMITED OF NEW JERSEY, INC.  
ASSUMPTION AND ASSIGNMENT AGREEMENT**

The undersigned persons designated as “Principals” hereby represent to Closets Unlimited of New Jersey, Inc. (“Franchisor”) that they are all of the shareholders of, or all of the general partners of, all of the members and managers of, \_\_\_\_\_ (“Franchisee”), as the case may be. In consideration of the grant by Franchisor to \_\_\_\_\_, as provided under the franchise agreement dated \_\_\_\_\_, [and later transferred to Franchisee] (the “Franchise Agreement”), each of the undersigned agrees, in consideration of benefits received and to be received by each of them, jointly and severally, and for themselves, their heirs, legal representatives and assigns that they, and each of them, shall be firmly bound by all of the terms, provisions and conditions of the foregoing Franchise Agreement, that they and each of them do unconditionally guarantee the full and timely performance by Franchisee of each and every obligation of Franchisee under the Franchise Agreement, including, without limitation, any indebtedness of Franchisee arising under or by virtue of the Franchise Agreement to Franchisor and/or its affiliate, and that they and each of them shall not permit or cause any change in the percentage of Franchisee owned, directly or indirectly, by any person, without first notifying Franchisor of said proposed transfer and obtaining the prior written consent of Franchisor, following Franchisor’s transfer procedures and without first paying or causing to be paid to Franchisor any required transfer fee. The undersigned further agree to be bound by the in-term and post-termination covenants of the Franchise Agreement including, without limitation, those relating to confidentiality and non-competition. The undersigned also agree that the governing law and methods for resolution of disputes which govern this Guaranty shall be the same as those outlined in the Franchise Agreement.

**EACH GUARANTOR ACKNOWLEDGES THAT HE OR SHE HAS READ THIS PERSONAL GUARANTY, UNDERSTANDS ITS TERMS, AND GUARANTOR WOULD NOT SIGN THIS PERSONAL GUARANTY IF GUARANTOR DID NOT UNDERSTAND AND AGREE TO BE BOUND BY ITS TERMS.**

**Principals:**

By: \_\_\_\_\_  
Print Name

By: \_\_\_\_\_  
Print Name

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Home Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Business Telephone

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## EXHIBIT 11

### **TELEPHONE, INTERNET WEB SITES AND LISTINGS AGREEMENT**

**THIS TELEPHONE, INTERNET WEB SITES AND LISTINGS AGREEMENT** (the “Agreement”) is made and entered into as of the date it is executed by Franchisor (the “Effective Date”), by and between CLOSETS UNLIMITED OF NEW JERSEY, INC, a New Jersey corporation (the “Franchisor”), and \_\_\_\_\_ (the “Franchisee”).

#### **WITNESSETH:**

**WHEREAS**, Franchisee desires to enter into a Franchise Agreement with Franchisor for the right to own and operate a Closet & Storage Concepts business (the “Franchise Agreement”); and

**WHEREAS**, Franchisor would not enter into the Franchise Agreement without Franchisee’s agreement to enter into, comply with, and be bound by all the terms and provisions of this Agreement;

**NOW, THEREFORE**, for and in consideration of the foregoing and the mutual promises and covenants contained herein, and in further consideration of the Franchise Agreement and the mutual promises and covenants contained therein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

#### **1. DEFINITIONS**

All terms used but not otherwise defined in this Agreement shall have the meanings set forth in the Franchise Agreement. “Termination” of the Franchise Agreement shall include, but shall not be limited to, the voluntary termination, involuntary termination, or natural expiration thereof.

#### **2. TRANSFER; APPOINTMENT**

2.1 Interest in Telephone Numbers, Internet Web Sites and Listings. Franchisee may acquire (whether in accordance with or in violation of the Franchise Agreement) during the term of the Franchise Agreement, certain right, title, and interest in and to certain telephone numbers and telephone directory listings (collectively, the “Telephone Numbers and Listings”); social media accounts, domain names, hypertext markup language, uniform resource locator addresses, and access to corresponding Internet web sites, and the right to hyperlink to certain web sites and listings on various Internet search engines (collectively, the “Internet Web Sites and Listings”) related to the Franchised Business or the Proprietary Marks (all of which right, title, and interest is referred to herein as “Franchisee’s Interest”).

2.2 Transfer. On Termination of the Franchise Agreement, or on periodic request of Franchisor, Franchisee will immediately direct all Telephone companies or listing companies, Internet Service Providers, social media platforms, domain name registries, Internet search engines, and other listing agencies (collectively, the “Companies”) with which Franchisee has Telephone

Numbers and Listings or Internet Web Sites and Listings: (i) to transfer all of Franchisee's Interest in such Telephone Numbers and Listings or Internet Web Sites and Listings to Franchisor; and (ii) to execute such documents and take such actions as may be necessary to effectuate such transfer. In the event Franchisor does not desire to accept any or all such Telephone Numbers and Listings or Internet Web Sites and Listings, Franchisee will immediately terminate Telephone Numbers and Listings or Internet Web Sites and Listings, or if such termination requires the involvement of the Companies, immediately direct the Companies to terminate such Telephone Numbers and Listings or Internet Web Sites and Listings and Franchisee will take such other actions as Franchisor directs.

2.3 Appointment; Power of Attorney. Franchisee hereby constitutes and appoints Franchisor and any officer or agent of Franchisor, for Franchisor's benefit under the Franchise Agreement and this Agreement or otherwise, with full power of substitution, as Franchisee's true and lawful attorney-in-fact with full power and authority in Franchisee's place and stead, and in Franchisee's name or the name of any affiliated person or affiliated company of Franchisee, to take any and all appropriate action and to execute and deliver any and all documents that may be necessary or desirable to accomplish the purposes of this Agreement. Franchisee further agrees that this appointment constitutes a power coupled with an interest and is irrevocable until Franchisee has satisfied all of its obligations under the Franchise Agreement and any and all other agreements to which Franchisee and any of its affiliates on the one hand, and Franchisor and any of its affiliates on the other, are parties, including without limitation this Agreement. Without limiting the generality of the foregoing, Franchisee hereby grants to Franchisor the power and right to do the following:

2.3.1 Direct the Companies to transfer all Franchisee's Interest to Franchisor;

2.3.2 Direct the Companies to terminate any or all of the Telephone Numbers and Listings or Internet Web Sites and Listings; and

2.3.3 Execute the Companies' standard assignment forms or other documents in order to affect such transfer or termination of Franchisee's Interest.

2.4 Certification of Termination. Franchisee hereby directs the Companies to accept, as conclusive proof of Termination of the Franchise Agreement, Franchisor's written statement, signed by an officer or agent of Franchisor, that the Franchise Agreement has terminated.

2.5 Cessation of Obligations. After the Companies have duly transferred all Franchisee's Interest to Franchisor, as between Franchisee and Franchisor, Franchisee will have no further interest in, or continuing obligations under, such Telephone Numbers and Listings or Internet Web Sites and Listings. Notwithstanding the foregoing, Franchisee will remain liable to each and all of the Companies for the sums Franchisee is obligated to pay such Companies for obligations Franchisee incurred before the date Franchisor duly accepted the transfer of such Interest and shall remain liable for any actions occurring prior to the date of transfer.

### 3. MISCELLANEOUS

3.1 Release. Franchisee hereby releases, remises, acquits, and forever discharges each and all of the Companies and each and all of their parent corporations, subsidiaries, affiliates,

directors, officers, stockholders, employees, and agents, and the successors and assigns of any of them, from any and all rights, demands, claims, damage, losses, costs, expenses, actions, and causes of action whatsoever, whether in tort or in contract, at law or in equity, known or unknown, contingent or fixed, suspected or unsuspected, arising out of, asserted in, assertable in, or in any way related to this Agreement.

3.2 Indemnification. Franchisee is solely responsible for all costs and expenses related to its performance, its nonperformance, and Franchisor's enforcement of this Agreement, which costs and expenses Franchisee will pay Franchisor in full, without defense or setoff, on demand. Franchisee agrees that it will indemnify, defend, and hold harmless Franchisor and its affiliates, and its and their directors, officers, shareholders, partners, members, employees, agents, and attorneys, and the successors and assigns of any and all of them, from and against, and will reimburse Franchisor and any and all of them for, any and all loss, losses, damage, damages, claims, debts, claims, demands, or obligations that are related to or are based on this Agreement.

3.3 No Duty. The powers conferred on Franchisor hereunder are solely to protect Franchisor's interests and shall not impose any duty on Franchisor to exercise any such powers. Franchisee expressly agrees that in no event shall Franchisor be obligated to accept the transfer of any or all of Franchisee's Interest in any or all such Telephone Numbers and Listings or Internet Web Sites and Listings.

3.4 Further Assurances. Franchisee agrees that at any time after the date of this Agreement, Franchisee will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the purposes of this Agreement.

3.5 Successors, Assigns, and Affiliates. All Franchisor's rights and powers, shall inure to Franchisor and its successors and assigns and all Franchisee's obligations, under this Agreement shall be binding on Franchisee's heirs, representatives, successors, assigns, and affiliated persons or entities as if they had duly executed this Agreement.

3.6 Effect on Other Agreements. This is agreement and the documents referenced herein constitute the entire agreement between the parties related to the subject matter herein.

3.7 Survival. This Agreement shall survive the Termination of the Franchise Agreement.

3.8 Joint and Several Obligations. All Franchisee's obligations under this Agreement shall be joint and several.

3.9 Governing Law. This Agreement shall be governed by and construed under the laws of the State of New Jersey, without regard to the application of New Jersey conflict of law rules.

IN WITNESS WHEREOF, the undersigned have executed or caused their duly authorized representatives to execute this Agreement.

CLOESTS UNLIMITED OF NEW JERSEY, INC.

FRANCHISEE:

By: \_\_\_\_\_

Name:

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

**EXHIBIT 12**  
**ELECTRONIC TRANSFER AUTHORIZATION**

**AUTHORIZATION TO HONOR CHARGES DRAWN BY AND  
PAYABLE TO CLOSETS UNLIMITED OF NEW JERSEY, INC. ("COMPANY")**

Depositor hereby authorizes and requests \_\_\_\_\_  
(the "Depository") to initiate debit and credit entries to Depositor's ☐ checking or ☐ savings  
account (select one) indicated below drawn by and payable to the order of Closets Unlimited of  
New Jersey, Inc. by Electronic Funds Transfer, provided there are sufficient funds in said account  
to pay the amount upon presentation.

Depositor agrees that the Depository's rights with respect to each such charge shall be the  
same as if it were a check drawn by the Depository and signed by Depositor. Depositor further  
agrees that if any such charge is dishonored, whether with or without cause and whether  
intentionally or inadvertently, the Depository shall be under no liability whatsoever.

Depository Name: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Transit/ABA Number: \_\_\_\_\_ Account Number: \_\_\_\_\_

This authority is to remain in full force and effect until Depository has received written  
notification from Closets Unlimited and Depositor of its termination.

Depositor: (Please Print)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date Signed

\_\_\_\_\_

\_\_\_\_\_

Signature(s) of Depositor, as Printed Above

Please attach a voided blank check, for purposes of setting up Bank and Transit Numbers.



# **Exhibit C**

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## **CLOSET & STORAGE CONCEPTS TABLE OF CONTENTS-OPERATIONS MANUAL**

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Jersey, Inc.**

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# **Exhibit D**

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## **CLOSET & STORAGE CONCEPTS LIST OF FRANCHISEES**

---

**Closets Unlimited of New  
Jersey, Inc.**

**LIST OF CLOSET & STORAGE CONCEPT  
FRANCHISEES  
As of December 31, 2022**

Arizona

Laurie & Brian Dunny  
15125 N. Hayden Road - Suite #123  
Scottsdale, AZ 85260  
(904) 923-1124

California

Steven Mort  
1313 Scenic Drive  
Modesto, CA  
(209) 497-6360

Colorado

Isaiah and Michelle Rozek  
117 South Sunset Street - Suite A  
Longmont, CO 80501  
(303)-682-4052

Connecticut

Karen Bradbury  
356 Ely Avenue  
Norwalk, CT 06854  
(203)-957-3304

Massachusetts

Brian and Mary Pat McShary  
31 Hayward Street  
Franklin, MA 02038  
(508)-553-3550

Nevada

Rob DiChristopher  
900 Warm Springs Road - Suite C-105  
Henderson, NV 89011  
(702)-459-0025

New Jersey

Joe Regan  
430 Route 46 East  
Fairfield, NJ 07004  
(973) 227-4150

North Carolina

Andrew and Leah Ward  
635 Pressley Road - Suite N  
Charlotte, NC 28217  
(704)-525-6515

**THE FOLLOWING FRANCHISEES LEFT THE SYSTEM in 2022:**

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

**Reacquired by Franchisor**

Wernersville, PA

Kevin Owles  
(717)-735-1444

# **Exhibit E**

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## **FINANCIAL STATEMENTS**

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**Closets Unlimited of New  
Jersey, Inc.**



# **CLOSETS UNLIMITED OF NEW JERSEY, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

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CANTOR  
NOVAK  
BEAVER  
& PIKE, PC

## INDEPENDENT AUDITORS' REPORT

To the Shareholder  
Closets Unlimited of New Jersey, Inc.  
West Berlin, New Jersey

### Opinion

We have audited the accompanying financial statements of Closets Unlimited of New Jersey, Inc. (a NJ corporation), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Closets Unlimited of New Jersey, Inc. as of December 31, 2022, and the results of its operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Closets Unlimited of New Jersey, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Closets Unlimited of New Jersey, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Closets Unlimited of New Jersey, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18, 19 and 20 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Cantor Novak Berman & Pish, PC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Newtown, Pennsylvania  
April 19, 2023

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2022**

---

**ASSETS**

CURRENT ASSETS

Cash	\$	674,566
Accounts receivable, net		177,403
ERTC refundable credits receivable		622,869
Note receivable		37,486
Inventory		46,012
Prepaid expenses and other current assets		25,865
<b>TOTAL CURRENT ASSETS</b>		<b>1,584,201</b>

PROPERTY AND EQUIPMENT, NET	166,232
OPERATING LEASE RIGHT-OF-USE ASSETS	101,778

OTHER ASSETS

Security deposits	16,569
Intangible assets, net	166,667

<b>TOTAL ASSETS</b>	<b>\$ 2,035,447</b>
---------------------	---------------------

**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES

Line of credit	\$	139,994
Long term debt, current portion		52,064
Capital lease obligations, current portion		2,978
Operating lease liabilities, current portion		51,769
Accounts payable		67,373
Accrued expenses		147,208
<b>TOTAL CURRENT LIABILITIES</b>		<b>461,386</b>

LONG TERM LIABILITIES

Long term debt, net of current portion	115,266
Capital lease obligations, net of current portion	2,054
Operating lease liabilities, net of current portion	51,318
Due to affiliate	5,421
	<b>174,059</b>

<b>TOTAL LIABILITIES</b>	<b>635,445</b>
--------------------------	----------------

**COMMITMENTS AND CONTINGENCIES**

STOCKHOLDERS' EQUITY

Common stock, \$1 par value, 1,000 shares authorized, 300 issued and outstanding	300
Additional paid-in capital	844,977
Retained earnings	554,725
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,400,002</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,035,447</b>
---	---------------------

See accompanying notes and independent auditor's report.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**STATEMENT OF OPERATIONS AND RETAINED EARNINGS**  
**YEAR ENDED DECEMBER 31, 2022**

---

REVENUES	\$ 5,032,253
COST OF SALES	<u>1,734,841</u>
GROSS PROFIT	<u>3,297,412</u>
GENERAL AND ADMINISTRATIVE EXPENSES	
Administrative	2,397,486
Depreciation	53,985
Amortization	<u>30,000</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>2,481,471</u>
INCOME FROM OPERATIONS	<u>815,941</u>
OTHER INCOME (EXPENSE)	
Interest expense	(21,530)
Interest income	8,513
ERTC refundable credits	<u>776,293</u>
	<u>763,276</u>
NET INCOME BEFORE INCOME TAXES	1,579,217
INCOME TAX EXPENSE	<u>45,000</u>
<b>NET INCOME</b>	<b>1,534,217</b>
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>(444,760)</u>
DISTRIBUTIONS	<u>(534,732)</u>
RETAINED EARNINGS, ENDING	<u><u>\$ 554,725</u></u>

See accompanying notes and independent auditor's report.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2022**

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Income from operations	\$ 1,534,217
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	83,985
Non-cash lease expense	1,309
(Increase) decrease in current assets	
Accounts receivable	(47,745)
Note receivable	(37,486)
Inventory	(4,794)
Employee retention tax credit receivable	(622,869)
Prepaid expenses and other current assets	(7,360)
Increase (decrease) in current liabilities	
Accounts payable and accrued expenses	63,084
Advances to affiliate	(2,611)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>959,730</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	<u>(135,606)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(135,606)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net advances (payments) on line of credit	(50,000)
Long-term borrowings	33,863
Payments on finance lease obligations	(3,819)
Stockholder distributions	<u>(534,732)</u>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>(554,688)</u>
<b>NET INCREASE IN CASH</b>	269,436
<b>CASH, BEGINNING</b>	<u>405,130</u>
<b>CASH, ENDING</b>	<u>\$ 674,566</u>
<b>SUPPLEMENTARY DISCLOSURES</b>	
Interest paid	<u>\$ 21,530</u>
Income taxes paid	<u>\$ 45,000</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>	
Operating lease right-of-use assets obtained in exchange for lease liabilities	<u>\$ 151,374</u>

See accompanying notes and independent auditor's report.



**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

---

**NOTE 1            ORGANIZATION AND NATURE OF ACTIVITIES**

Closets Unlimited of New Jersey, Inc. (the “Company”), trading as Closet & Storage Concepts and More Space Place, designs, manufactures and installs organizational and storage products used in residential and business settings. In addition, since 2000, the Company has sold and supported, with product and marketing, franchises in markets throughout the United States. At the end of 2022, the Company serviced eight individually owned franchises trading as Closet & Storage Concepts and twenty-six individually owned franchises trading as More Space Place.

The Company is headquartered in West Berlin, NJ and operates three Closet & Storage Concepts company-owned locations servicing New Jersey, Pennsylvania, Delaware and Maryland. Most of the products installed are for residential closet use; designs often include multiple levels of hanging poles for clothing, shelving for folded garments, shoe racks, tie racks, belt racks, drawers, baskets, as well as other space saving home furnishings such as Murphy wall beds. Other design and products are developed to the customer’s specific needs.

**NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements and income tax returns are prepared using the accrual basis of accounting, in accordance with accounting generally accepted in the United States of America.

Use of Estimates

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

Recently Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”), which requires lessees to record most leases on their balance sheets but recognize the expenses on their statement of operations in a manner similar to Accounting Standards Codification (“ASC”) 840, “Leases”. ASU 2016 -02 FASB ASC 842 requires that a lessee recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement (Continued)

On January 1, 2022, the Company adopted ASU 2016-02 using the modified retrospective approach, which permits application of this new guidance at the beginning of the period of adoption, with single year presentation. The Company also elected the package of practical expedients permitted under the transition guidance within ASU 2016-02, which among other things, permits the Company to not reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs. Accordingly, the adoption of the new standards had no impact on previously reported income, expenses and equity. As part of this adoption, the Company elected not to record operating right-of-use assets or operating lease liabilities for leases with an initial term of 12 months or less.

Payments on those leases will be recognized on a straight-line basis through the Company's financial statements of operations over the lease term. The Company also elected not to combine lease and non-lease components on all new or modified operating leases into a single lease component for all classes of assets. See Note 8.

Revenue Recognition

*Franchise Revenue*

Franchise revenues consist primarily of royalties, National Advertising Program contributions, and initial franchise fees.

The Company's primary performance obligation under the franchise license is granting certain rights to use the Company's intellectual property, and all other services the Company provides under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for under ASC 606 as a single performance obligation, which is satisfied by granting certain rights to use our intellectual property.

Royalties are calculated as a percentage of the franchisee's sales. Franchisee contributions to national advertising funds are based on a fixed dollar assessment. Under our franchise agreements, advertising contributions paid by franchisees, must be spent on advertising, marketing and related activities. Our franchise royalties, as well as our National Advertising Program contributions, represent sales-based royalties that are related entirely to our performance obligation under the franchise agreement and are recognized as franchise sales occur.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

---

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

*Franchise Revenue (Continued)*

Initial franchise fees are payable by the franchisee upon signing a new franchise agreement or successor franchise agreement. Revenue from initial fees is recognized when the performance obligation is satisfied. Performance obligations that are normally satisfied by the opening of the franchised business to the public are determined to be earned during the period from the execution of the contract to the opening of the franchised business which is generally less than one year. Unearned initial fee revenues from franchisee acquisition and acceptance will be as deferred non-refundable revenue and recognized as revenue over the term of the contract which is currently 10 years. There are currently no unearned initial fee revenues as management has determined that all performance obligations have been satisfied.

*Corporate-owned Stores Revenue*

The Company receives payments from customers based on a billing schedule as established in our contracts. Contracts typically call for a deposit of 50% of the contract value at acceptance of an order and the remaining balance upon installation of the product. Contract asset relates to our conditional right to consideration for our completed performance under the contract. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) we perform under contract.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of amounts due from franchisees for royalties and National Advertising Program revenues. The Company's policy is to extend credit to customers and franchisees that management has determined to be credit-worthy. The company provides an allowance for doubtful accounts equal to the estimated losses are based on a review of the current status of existing receivables. An allowance for doubtful accounts has not been established at December 31, 2022, as management believes all accounts to be fully collectible.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

---

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Note Receivable

The Company entered into a note receivable with a franchisee for unpaid franchise royalties, in the amount of \$37,486. Payments on this note commence in February 2023, and are due in bi-weekly installments of \$1,630 through December 2023. There is no interest charted on this note.

Inventories

Inventory is comprised primarily of raw materials (e.g., laminate, accessories, closet hardware) which have not been charged to specific jobs as well as logo and promotional items sold to the franchises. Due to the custom nature of the Company's business model, there are no finished goods inventory and work-in-progress inventory is minimal. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method. Market is determined by the most recent selling price. The inventory at December 31, 2022 was \$46,012.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment for financial reporting purposes is provided using the straight-line method over their respective estimated useful lives ranging from 5 to 15 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property and equipment is sold or otherwise disposed of, the asset account and any accumulated depreciation accounts are relieved, and any gain or loss is included in other income and expense on the income statement.

The carrying amount of all long-lived assets is evaluated periodically to determine if an adjustment to the depreciation period, or the non-depreciated balance is warranted. Based on its most recent analysis, the Company believes that no impairment of property and equipment exists.

Intangible Assets

Intangible assets are amortized on a straight-line basis over their useful lives, estimated to be fifteen years. Intangibles primarily exist relating to the acquisition of certain franchise costs and restrictive covenants on October 31, 2013. There has been no impairment loss related to the intangibles as of December 31, 2022. Estimated future amortization expense for the years 2023 through 2027 is \$30,000 per year, and \$16,667 in 2028.

Intangible assets are tested for impairment at least annually on December 31, or more frequently if events or changes in circumstances, such as a significant decline in sales, earnings, or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Based on the Company's 2022 impairment analysis, the Company did not identify any impairment to the intangible assets.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

---

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost of Sales

Cost of sales consists primarily of direct costs such as materials and supplies related to its closet design, manufacturing, and installation sales.

Selling and Administrative Expenses

Selling and administrative expenses consist of compensations for all employees, advertising, insurance, rents, professional fees, technology service and supplies, travel and entertainment, and other administrative costs.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred. Advertising expense for the year ended December 31, 2022 was \$207,411.

Warranties

The Company provides a warranty on all materials and workmanship for all sales of items delivered and installed for as long as the customer occupies the premises in which such products were installed; except for the following actions which will void the warranty: (a) the customer fails to pay all the agreed upon compensations upon completion of the project; (b) the customer subjects the project to use other than for its reasonable and intended usage; and (c) the project is removed and is not removed and reinstalled by the Company. This warranty historically has not produced material costs; therefore, the Company has not accrued any future expenses against current operations.

Sales Tax

The Company's policy is to exclude from its sales all sales taxes assessed to its customers. Currently the Company does not provide goods or services which are subject to sales tax in any of its operational jurisdictions. The Company does pay sales and use taxes on material purchases, and those are presented net. Use taxes assessed on materials purchases are recorded as accrued liabilities on the balance sheet until remitted to the state agencies.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code for federal and state income tax purposes. Under those provisions, the Company does not pay corporate income taxes on its taxable income. Instead, the stockholder is liable for individual federal and state income taxes on the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. However, there is a provision for the required state income taxes.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

---

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

While the Company has elected New Jersey S corporation status, it has also made an annual election for the 2022 New Jersey Pass-Through Business Alternative Income Tax (PTE). Under this election, the Company is agreeing to pay tax due on the owner's share of the distributive proceeds. The owner may then claim a refundable tax credit for the amount of tax paid by the pass-through entity on their share of distributive proceeds.

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2019 through 2022. In evaluating the Company's tax provisions and accruals, interpretations and tax planning strategies are considered. The Company believes its estimates are appropriate based on current facts and circumstances.

Variable Interest Entities

The Consolidation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), requires certain variable interest entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have a sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Management has determined that the corporation discussed in Note 4 is not a VIE; therefore, consolidation is not required. Management has determined also, that the Company does not have any other material VIE relationships which require consolidation.

Date of Management's Review

Management has evaluated subsequent events through April 19, 2023, the date which the financial statements were available to be issued.

NOTE 3 FRANCHISE OPERATIONS

Franchise activity for the year ended December 31, 2022 is as follows:

Franchises opened	0
Franchises sold	0
Franchises in operation	34
Company-owned locations	4
Franchises closed	0
Franchises reacquired from franchisees	0
Franchises transferred to new franchisees	0
Franchises ceased operations - other reasons	0

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

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**NOTE 4            RELATED PARTY TRANSACTIONS**

The Company's sole stockholder from time to time has advanced funds to the Company for working capital purposes. No note or repayment schedule exists and the advance bears no interest. The shareholder has waived his rights to payment prior to other obligations, therefore, the advances are classified as long-term debt on the balance sheet. At December 31, 2022, there were no balances owed to the stockholder.

The Company's sole stockholder owns a separate entity that, in 2014, acquired substantially all of the assets and operations of a manufacturing entity that contractually supplies all of the "More Space Place" franchises. During the year, the Company made purchases from the entity in the amount of \$38,717, which are included in materials and supplies in costs of sales. The entity also provided product development services in the amount of \$6,309 included in costs of sales, and franchisee support in the amount of \$294, included in general and administrative expenses. Balances due to this entity at December 31, 2022, are \$4,645, which is included in accounts payable and \$5,421 which is included as due to affiliate on the balance sheet.

**NOTE 5            RETIREMENT PLANS**

The Company sponsors the Closet & Storage Concepts 401(K) Plan. The Plan covers all employees of age 21 with one year of service and 1,000 hours of service or more. The profit-sharing feature is discretionary in nature. Retirement expense for the year ended December 31, 2022 was \$20,097.

**NOTE 6            LINE OF CREDIT**

The Company currently has a line of credit with TD Bank in the amount of \$200,000. Interest is payable at varying dates based on the bank's prime rate plus 0.49% (7.99% at December 31, 2022). The line of credit is guaranteed by the Company's sole stockholder and is collateralized by the assets of the Company. As of December 31, 2022, \$139,994 was outstanding on the line of credit.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

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**NOTE 7            LONG-TERM DEBT OBLIGATIONS**

The following is a summary of long-term debt obligations at December 31, 2022:

Note payable to GM Financial. The loan is payable over 72 months at \$493 per month at 4.9% interest and matures February 2023. The loan is collateralized by a vehicle.	981
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures July 2024. The loan is collateralized by a vehicle.	9,372
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures July 2024. The loan is collateralized by a vehicle.	9,372
Note payable to Bank of West. The loan is payable over 84 months at \$1,456 per month at 5.34% interest and matures August 2024. The loan is collateralized by equipment. The loan can be voluntarily prepaid after the initial 12 payments.	27,809
Note payable to Ford Motor Credit. The loan is payable over 60 months at \$634 per month at 2.9% interest and matures August 2025. The loan is collateralized by a vehicle.	<u>18,885</u>
Note payable to Leaf Capital Funding. The loan is payable over 72 months at \$1,754 per month at 5.5% interest and matures July 2028. The loan is collateralized by equipment.	<u>100,911</u>
Total long term obligations	167,330
Less: current portion	52,064
Noncurrent portion	<u><u>\$ 115,266</u></u>

The following is a summary of scheduled principal payments for the long-term debt obligations as of December 31, 2022:

<u>Years Ending December 31,</u>	
2023	\$ 52,064
2024	42,686
2025	22,098
2026	18,741
2027	19,798
Thereafter	<u>11,943</u>
	<u><u>\$ 167,330</u></u>



**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

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**NOTE 8**            **LEASES**

Leases are classified as either finance leases or operating leases based on criteria in ASC 842. The Company has operating leases for its corporate offices, warehouse space and retail showroom. The Company has finance leases for equipment and vehicles. Such leases generally have original lease terms between two and six years, and often include options to renew. The Company includes options to extend the lease term if the options are reasonably exercised. The Company currently considers its renewal options to be reasonably certain to be exercised. The Company does not have residual value guarantees or material restrictive covenants associated with its leases.

On January 1, 2022, the Company adopted ASU 2016-02 using the modified retrospective approach, which permits application of this new guidance at the beginning of the period of adoption, requiring single year presentation.

Operating lease assets represent the right to use an underlying asset, and operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future of minimum lease payments at lease commencement. The Company calculates the present value of its operating leases using an estimated incremental borrowing rate, which requires judgement. The Company estimates the incremental borrowing rate for each operating lease based on prevailing market rates for collateralized debt in a similar economic environment with similar payment terms and maturity dates commensurate with the terms of the lease.

Certain leases contain variable payments, which are expensed as incurred and not included in the Company's operating lease right-of-use assets and operating lease liabilities. These amounts primarily include payments for maintenance, utilities, taxes and insurance on the Company's corporate and retail facilities and are excluded from the present value of the Company's lease obligations.

Previously designated capital leases under ASC 840 are now considered finance leases under ASC 842. The Company calculates the present value of the finance leases using the interest rate implicit in the lease agreement.

Under adoption of ASI 2016-02, the Company recognized operating lease right-of-use assets of \$151,374 and an operating lease obligation of \$151,374.

As part of this adoption, the Company elected to not record operating lease right-of-use assets or operating lease liabilities with an initial term of 12 months or less.

The capitalized cost of the equipment and vehicles under finance leases is \$15,388 at December 31, 2022, and is included in property and equipment account on the balance sheet. Amortization of the capitalized cost of the equipment and vehicles is charged to depreciation expense. The accumulated depreciation on this equipment and vehicles was \$7,725 at December 31, 2022.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

NOTE 8 LEASES (Continued)

The components of lease expense were as follows:

	<u>Statement of Operations Location</u>	<u>Year Ended December 31, 2022</u>
<u>Operating lease cost:</u>		
Lease cost	General & administrative expenses	\$ 56,241
Variable lease cost	General & administrative expenses	<u>23,426</u>
		<u>\$ 79,667</u>
<u>Finance lease cost:</u>		
Amortization of finance leases	Cost of goods sold	\$ 2,723
Interest on lease liabilities	Interest expense	<u>490</u>
		<u>\$ 3,213</u>
<u>Short-term lease cost:</u>		
Short-term lease cost	Cost of goods sold	\$ 90,620
Short-term lease cost	General & administrative expenses	<u>30,207</u>
		<u>\$ 120,827</u>

Variable lease cost primarily consists of common area maintenance, such as cleaning and repairs.

The following is a schedule by year of the maturities of lease liabilities with original terms in excess of one year as of December 31, 2022.

<u>Years Ending December 31,</u>	<u>Operating Leases Amount</u>	<u>Finance Leases Amount</u>
2023	\$ 56,310	\$ 3,223
2024	<u>52,794</u>	<u>2,136</u>
Total undiscounted future minimum lease payments	<u>109,104</u>	<u>5,359</u>
Less imputed interest	(6,017)	(327)
Total discounted future minimum lease payments	<u>\$ 103,087</u>	<u>\$ 5,032</u>
Weighted average remaining lease term (years)	1.9	1.7
Weighted average discount rate	5.70%	7.01%

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

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**NOTE 9            INTANGIBLE ASSETS**

On October 31, 2013, the Company purchased certain assets of More Space Place, Inc. for \$450,000. Identifiable intangible assets recorded in connection with the October 31, 2013 More Space Place, Inc. acquisition shown net of accumulated amortization at December 31, 2022 consisted of the following:

	Gross	Amortization	Net
Qualified Franchise Agreements	\$ 300,000	\$ 185,000	\$ 115,000
Non-Competition Agreement	150,000	98,333	51,667
	<u>\$ 450,000</u>	<u>\$ 283,333</u>	<u>\$ 166,667</u>

Amortization expense was \$30,000 for each year ended December 31, 2022. There was no impairment loss in 2022. Future amortization is scheduled at approximately \$30,000 per year through 2027 and \$16,667 in 2028.

**NOTE 10            CONCENTRATIONS**

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to the Company. Accounts at each institution are insured by the FDIC up to \$250,000 for interest-bearing accounts. The Company maintains its cash balances in banks and periodically maintains balances in excess of the FDIC limit. At December 31, 2022, amounts in excess of the FDIC insured limit was \$858,340.

**NOTE 11            OTHER INCOME – ERTC REFUNDABLE CREDITS**

The CARES Act provides an employee retention tax credit ("ERTC"), which is a refundable tax credit against certain employment taxes for eligible employers. For 2020, the tax credit of up to \$5,000 per employee is equal to 50% of qualified wages paid to employees during the year, capped at \$10,000 of qualified wages per employee. For 2021, the tax credit of up to \$7,000 per employee is equal to 70% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through September 30, 2021. The Company qualified for the tax credit under the CARES Act during 2020 and 2021; therefore, a tax credit in the amount of \$776,293 was recognized and included in other income on the statement of operations as of December 31, 2022, which is the year in which the qualification was realized. A related receivable is included on the balance sheet as of December 31, 2022, in the amount of \$622,869, which is comprised of \$618,130 of the credit and \$4,739 of related interest income.

## **SUPPLEMENTARY INFORMATION**

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF REVENUES**  
**YEAR ENDED DECEMBER 31, 2022**

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Store sales	\$ 3,243,211
Franchise fees	5,000
Royalties	1,724,442
Advertising contributions	59,600
	<u>\$ 5,032,253</u>

See independent auditor's report

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF COST OF SALES**  
**YEAR ENDED DECEMBER 31, 2022**

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Beginning inventory	\$ 41,218
Purchases of materials and supplies	976,505
Ending inventory	<u>(46,012)</u>
Total materials and supplies	<u>971,711</u>
Other costs	
Labor	509,473
Commissions	44,752
Employee benefits and retirement	29,840
Freight and shipping	7,288
Product development	6,309
Payroll taxes	44,274
Rent and utilities	<u>121,194</u>
Total other costs	<u>763,130</u>
	<u>\$ 1,734,841</u>

See independent auditor's report

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEAR ENDED DECEMBER 31, 2022**

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Advertising, promotion and marketing	\$ 207,411
Bank and credit card fees	68,672
Dues and subscriptions	8,713
Employee benefits and retirement	46,680
Franchisee support	294
Insurance	83,755
Lease expense	56,241
Meals and entertainment	7,570
Office and supplies	32,197
Payroll	1,288,925
Payroll taxes	97,188
Professional fees	185,797
Rent	53,633
Repairs and maintenance	14,500
Taxes and licenses	6,692
Technology	73,146
Telephone and utilities	40,379
Travel	52,724
Vehicle, parking and tolls	72,969
	<u>\$ 2,397,486</u>

See independent auditor's report

# **CLOSETS UNLIMITED OF NEW JERSEY, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**



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CANTOR  
NOVAK  
BEAVER  
& PIKE, PC

## INDEPENDENT AUDITORS' REPORT

To the Shareholder  
Closets Unlimited of New Jersey, Inc.  
West Berlin, New Jersey

### Opinion

We have audited the accompanying financial statements of Closets Unlimited of New Jersey, Inc. (a NJ corporation), which comprise the balance sheet as of December 31, 2021, and the related statements of operations, accumulated deficit, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the December 31, 2021 financial statements referred to above present fairly, in all material respects, the financial position of Closets Unlimited of New Jersey, Inc. as of December 31, 2021, and the results of its operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Closets Unlimited of New Jersey, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Closets Unlimited of New Jersey, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Closets Unlimited of New Jersey, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 16, 17 and 18 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Cantor Novak Berman & Peltz, PC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Newtown, Pennsylvania  
May 4, 2022

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2021**

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**ASSETS**

CURRENT ASSETS

Cash	\$	405,130
Accounts receivable, net		129,658
Inventory		41,218
Prepaid expenses and other current assets		18,505
<b>TOTAL CURRENT ASSETS</b>		<b>594,511</b>

PROPERTY AND EQUIPMENT, NET		84,611
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OTHER ASSETS

Security deposits		16,569
Intangible assets, net		196,667

<b>TOTAL ASSETS</b>	<b>\$</b>	<b>892,358</b>
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**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES

Line of credit	\$	189,994
Long term debt, current portion		67,047
Capital lease obligations, current portion		3,818
Accounts payable		78,787
Accrued expenses		72,711
<b>TOTAL CURRENT LIABILITIES</b>		<b>412,357</b>

LONG TERM LIABILITIES

Long term debt, net of current portion		66,420
Capital lease obligations, net of current portion		5,032
Due to affiliate		8,032
		<u>79,484</u>

<b>TOTAL LIABILITIES</b>		<b>491,841</b>
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**COMMITMENTS AND CONTINGENCIES**

STOCKHOLDERS' EQUITY

Common stock, \$1 par value, 1,000 shares authorized, 300 issued and outstanding		300
Additional paid-in capital		844,977
Accumulated deficit		(444,760)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>400,517</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>892,358</b>
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See accompanying notes and independent auditor's report.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT**  
**YEAR ENDED DECEMBER 31, 2021**

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REVENUES	\$ 4,555,691
COST OF SALES	<u>1,502,852</u>
GROSS PROFIT	<u>3,052,839</u>
GENERAL AND ADMINISTRATIVE EXPENSES	
Administrative	2,357,993
Depreciation	54,479
Amortization	<u>30,000</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>2,442,472</u>
INCOME FROM OPERATIONS	<u>610,367</u>
OTHER INCOME (EXPENSE)	
Bad debts	(15,475)
Interest expense	(22,320)
Non-recurring legal expense	<u>(115,000)</u>
	<u>(152,795)</u>
NET INCOME BEFORE INCOME TAXES	457,572
INCOME TAX EXPENSE	<u>25,750</u>
<b>NET INCOME</b>	<b>431,822</b>
ACCUMULATED DEFICIT, BEGINNING	<u>(576,582)</u>
DISTRIBUTIONS	<u>(300,000)</u>
ACCUMULATED DEFICIT , ENDING	<u><u>\$ (444,760)</u></u>

See accompanying notes and independent auditor's report.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2021**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Income from operations	\$ 431,822
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	84,479
Bad debts	15,475
(Increase) decrease in current assets	
Accounts receivable	(3,733)
Inventory	(12,863)
Prepaid expenses and other current assets	(17,305)
Increase (decrease) in current liabilities	
Accounts payable and accrued expenses	124
Advances to affiliate	2,329
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>500,328</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on long-term obligations	(65,416)
Payments on capital lease obligations	(3,574)
Stockholder distributions	<u>(300,000)</u>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>(368,990)</u>

**NET INCREASE IN CASH** 131,338

**CASH, BEGINNING** 273,792

**CASH, ENDING** \$ 405,130

**SUPPLEMENTARY DISCLOSURES**

Interest paid	<u><u>\$ 22,320</u></u>
Income taxes paid	<u><u>\$ 38,558</u></u>

See accompanying notes and independent auditor's report.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE 1            ORGANIZATION AND NATURE OF ACTIVITIES**

Closets Unlimited of New Jersey, Inc. (the “Company”), trading as Closet & Storage Concepts and More Space Place, designs, manufactures and installs organizational and storage products used in residential and business settings. In addition, since 2000, the Company has sold and supported, with product and marketing, franchises in markets throughout the United States. At the end of 2021, the Company serviced nine individually owned franchises trading as Closet & Storage Concepts and twenty-six individually owned franchises trading as More Space Place.

The Company is headquartered in West Berlin, NJ and operates three Closet & Storage Concepts company-owned locations servicing New Jersey, Pennsylvania, Delaware and Maryland. Most of the products installed are for residential closet use; designs often include multiple levels of hanging poles for clothing, shelving for folded garments, shoe racks, tie racks, belt racks, drawers, baskets, as well as other space saving home furnishings such as Murphy wall beds. Other design and products are developed to the customer’s specific needs.

**NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements and income tax returns are prepared using the accrual basis of accounting, in accordance with accounting generally accepted in the United States of America.

Use of Estimates

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

Revenue Recognition

*Franchise Revenue*

Franchise revenues consist primarily of royalties, National Advertising Program contributions, and initial franchise fees.

The Company’s primary performance obligation under the franchise license is granting certain rights to use the Company’s intellectual property, and all other services the Company provides under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for under ASC 606 as a single performance obligation, which is satisfied by granting certain rights to use our intellectual property.



NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

*Franchise Revenue (Continued)*

Royalties are calculated as a percentage of the franchisee's sales. Franchisee contributions to national advertising funds are based on a fixed dollar assessment. Under our franchise agreements, advertising contributions paid by franchisees, must be spent on advertising, marketing and related activities. Our franchise royalties, as well as our National Advertising Program contributions, represent sales-based royalties that are related entirely to our performance obligation under the franchise agreement and are recognized as franchise sales occur.

Initial franchise fees are payable by the franchisee upon signing a new franchise agreement or successor franchise agreement. Revenue from initial fees is recognized when the performance obligation is satisfied. Performance obligations that are normally satisfied by the opening of the franchised business to the public are determined to be earned during the period from the execution of the contract to the opening of the franchised business which is generally less than one year. Unearned initial fee revenues from franchisee acquisition and acceptance will be as deferred non-refundable revenue and recognized as revenue over the term of the contract which is currently 10 years. There are currently no unearned initial fee revenues as management has determined that all performance obligations have been satisfied.

*Corporate-owned Stores Revenue*

The Company receives payments from customers based on a billing schedule as established in our contracts. Contracts typically call for a deposit of 50% of the contract value at acceptance of an order and the remaining balance upon installation of the product. Contract asset relates to our conditional right to consideration for our completed performance under the contract. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) we perform under contract.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of amounts due from franchisees for royalties and National Advertising Program revenues. The Company's policy is to extend credit to customers and franchisees that management has determined to be credit-worthy. The company provides an allowance for doubtful accounts equal to the estimated losses are based on a review of the current status of existing receivables. An allowance for doubtful accounts has not been established at December 31, 2021, as management believes all accounts to be fully collectible.

Inventories

Inventory is comprised primarily of raw materials (e.g., laminate, accessories, closet hardware) which have not been charged to specific jobs as well as logo and promotional items sold to the franchises. Due to the custom nature of the Company's business model, there are no finished goods inventory and work-in-progress inventory is minimal. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method. Market is determined by the most recent selling price. The inventory at December 31, 2021 was \$41,218.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment for financial reporting purposes is provided using the straight-line method over their respective estimated useful lives ranging from 5 to 15 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property and equipment is sold or otherwise disposed of, the asset account and any accumulated depreciation accounts are relieved, and any gain or loss is included in other income and expense on the income statement.

The carrying amount of all long-lived assets is evaluated periodically to determine if an adjustment to the depreciation period, or the non-depreciated balance is warranted. Based on its most recent analysis, the Company believes that no impairment of property and equipment exists.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Intangible assets are amortized on a straight-line basis over their useful lives, estimated to be fifteen years. Intangibles primarily exist relating to the acquisition of certain franchise costs and restrictive covenants on October 31, 2013. There has been no impairment loss related to the intangibles as of December 31, 2021. Estimated future amortization expense for the years 2022 through 2027 is \$30,000 per year, and \$16,667 in 2028.

Intangible assets are tested for impairment at least annually on December 31, or more frequently if events or changes in circumstances, such as a significant decline in sales, earnings, or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Based on the Company's 2021 impairment analysis, the Company did not identify any impairment to the intangible assets.

Cost of Sales

Cost of sales consists primarily of direct costs such as materials and supplies related to its closet design, manufacturing, and installation sales.

Selling and Administrative Expenses

Selling and administrative expenses consist of compensations for all employees, advertising, insurance, rents, professional fees, technology service and supplies, travel and entertainment, and other administrative costs.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred. Advertising expense for the year ended December 31, 2021 was \$196,139.

Warranties

The Company provides a warranty on all materials and workmanship for all sales of items delivered and installed for as long as the customer occupies the premises in which such products were installed; except for the following actions which will void the warranty: (a) the customer fails to pay all the agreed upon compensations upon completion of the project; (b) the customer subjects the project to use other than for its reasonable and intended usage; and (c) the project is removed and is not removed and reinstalled by the Company. This warranty historically has not produced material costs; therefore, the Company has not accrued any future expenses against current operations.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales Tax

The Company's policy is to exclude from its sales all sales taxes assessed to its customers. Currently the Company does not provide goods or services which are subject to sales tax in any of its operational jurisdictions. The Company does pay sales and use taxes on material purchases, and those are presented net. Use taxes assessed on materials purchases are recorded as accrued liabilities on the balance sheet until remitted to the state agencies.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code for federal and state income tax purposes. Under those provisions, the Company does not pay corporate income taxes on its taxable income. Instead, the stockholder is liable for individual federal and state income taxes on the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. However, there is a provision for the required state income taxes.

While the Company has elected New Jersey S corporation status, it has also made an annual election for the 2021 New Jersey Pass-Through Business Alternative Income Tax (PTE). Under this election, the Company is agreeing to pay tax due on the owner's share of the distributive proceeds. The owner may then claim a refundable tax credit for the amount of tax paid by the pass-through entity on their share of distributive proceeds.

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2018 through 2021. In evaluating the Company's tax provisions and accruals, interpretations and tax planning strategies are considered. The Company believes its estimates are appropriate based on current facts and circumstances.

Variable Interest Entities

The Consolidation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), requires certain variable interest entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have a sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Management has determined that the corporation discussed in Note 4 is not a VIE; therefore, consolidation is not required. Management has determined also, that the Company does not have any other material VIE relationships which require consolidation.

Date of Management's Review

Management has evaluated subsequent events through May 4, 2022, the date which the financial statements were available to be issued.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE 3            FRANCHISE OPERATIONS**

Franchise activity for the year ended December 31, 2021 is as follows:

Franchises opened	0
Franchises sold	0
Franchises in operation	35
Company-owned locations	4
Franchises closed	1
Franchises reacquired from franchisees	0
Franchises transferred to new franchisees	3
Franchises ceased operations - other reasons	0

**NOTE 4            RELATED PARTY TRANSACTIONS**

The Company's sole stockholder from time to time has advanced funds to the Company for working capital purposes. No note or repayment schedule exists and the advance bears no interest. The shareholder has waived his rights to payment prior to other obligations, therefore, the advances are classified as long-term debt on the balance sheet. At December 31, 2021, there were no balances owed to the stockholder.

The Company's sole stockholder owns a separate entity that, in 2014, acquired substantially all of the assets and operations of a manufacturing entity that contractually supplies all of the "More Space Place" franchises. During the year, the Company made purchases from the entity in the amount of \$33,052, which are included in materials and supplies in costs of sales. The entity also provided product development services in the amount of \$35,568 included in costs of sales, and franchisee support in the amount of \$30,261, included in general and administrative expenses. Balances due to this entity at December 31, 2021, are \$3,159, which is included in accounts payable and \$8,032 which is included as due to affiliate on the balance sheet.

**NOTE 5            RETIREMENT PLANS**

The Company sponsors the Closet & Storage Concepts 401(K) Plan. The Plan covers all employees of age 21 with one year of service and 1,000 hours of service or more. The profit-sharing feature is discretionary in nature. Retirement expense for the year ended December 31, 2021 was \$23,269.

**NOTE 6            LINE OF CREDIT**

The Company currently has a line of credit with TD Bank in the amount of \$200,000. Interest is payable at varying dates based on the bank's prime rate plus 0.49% (3.74% at December 31, 2021). The line of credit is guaranteed by the Company's sole stockholder and is collateralized by the assets of the Company. As of December 31, 2021, \$189,994 was outstanding on the line of credit.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE 7            LONG-TERM DEBT OBLIGATIONS**

The following is a summary of long-term debt obligations at December 31, 2021:

Note payable to TD Bank. The loan is payable over 119 months at \$2,601 per month at 5.49% interest and matures in November 2022. The loan is personally guaranteed by the Company's sole stockholder and spouse, and is collateralized by their residence.	\$        27,873
Note payable to GM Financial. The loan is payable over 72 months at \$493 per month at 4.9% interest and matures February 2023. The loan is collateralized by a vehicle.	6,699
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures February 2023. The loan is collateralized by a vehicle.	14,854
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures February 2023. The loan is collateralized by a vehicle.	14,854
Note payable to Bank of West. The loan is payable over 84 months at \$1,456 per month at 5.34% interest and matures August 2024. The loan is collateralized by equipment. The loan can be voluntarily prepaid after the initial 12 payments.	43,348
Note payable to Ford Motor Credit. The loan is payable over 60 months at \$634 per month at 2.9% interest and matures August 2025. The loan is collateralized by a vehicle.	<u>25,839</u>
Total long term obligations	133,467
Less: current portion	<u>67,047</u>
Noncurrent portion	<u>\$        66,420</u>

The following is a summary of scheduled principal payments for the long-term debt obligations as of December 31, 2021.

<u>Years Ending December 31,</u>	
2022	\$        67,047
2023	36,168
2024	25,894
2025	<u>4,358</u>
	<u>\$        133,467</u>

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE 8 CAPITALIZED LEASE OBLIGATIONS**

The Company has capital lease commitments related to equipment purchases. The future minimum payments under the capitalized lease obligations are due as follows:

Total minimum lease payments (2021)	\$ 9,665
Amount representing interest	<u>815</u>
Present value of minimum lease payments	<u>\$ 8,850</u>

The present value of minimum future obligations shown above is calculated based on the effective annual weighted average interest rate of 6.8%

The capitalized cost of the equipment under capital lease is \$15,388 at December 31, 2021, and is included in the office equipment account on the balance sheet. Amortization of the capitalized cost of the equipment is charged to depreciation expense. The accumulated depreciation on this equipment was \$5,002 at December 31, 2021.

**NOTE 9 OPERATING LEASE COMMITMENTS**

The Company's leasing operations consist principally of leasing office, retail, warehouse space and vehicles under operating leases that have various expiration dates. Rent expense for the years ended December 31, 2021 was \$102,455. The following is a schedule by years of approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2021.

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 151,406
2023	129,103
2024	<u>54,551</u>
	<u>\$ 335,060</u>

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE 10**            **INTANGIBLE ASSETS**

On October 31, 2013, the Company purchased certain assets of More Space Place, Inc. for \$450,000. Identifiable intangible assets recorded in connection with the October 31, 2013 More Space Place, Inc. acquisition shown net of accumulated amortization at December 31, 2021 consisted of the following:

	Gross	Amortization	Net
Qualified Franchise Agreements	\$ 300,000	\$ 165,000	\$ 135,000
Non-Competition Agreement	150,000	88,333	61,667
	<u>\$ 450,000</u>	<u>\$ 253,333</u>	<u>\$ 196,667</u>

Amortization expense was \$30,000 for each year ended December 31, 2021 and 2020. There was no impairment loss in 2021. Future amortization is scheduled at approximately \$30,000 per year through 2027 and \$16,667 in 2028.

**NOTE 11**            **CONCENTRATIONS**

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to the Company. Accounts at each institution are insured by the FDIC up to \$250,000 for interest-bearing accounts. The Company maintains its cash balances in banks and periodically maintains balances in excess of the FDIC limit. At December 31, 2021, amounts in excess of the FDIC insured limit was \$206,481.

**NOTE 12**            **RISKS AND UNCERTAINTIES**

The economic uncertainties resulting from the COVID-19 pandemic may impact the Company's financial statements. However, the related financial impact and duration of the uncertainty cannot be determined as of the date of these financial statements. Accordingly, the financial statements do not include any adjustments that may result from the outcome of this uncertainty.

**NOTE 13**

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, on the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to know more about the nature of the Company's leasing activities. The Company will be required to retrospectively adopt the guidance in ASU 2016-02 for years beginning after December 15, 2021. The Company is currently evaluating the impact of adopting ASU 2016-02.



## **SUPPLEMENTARY INFORMATION**

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF REVENUES**  
**YEAR ENDED DECEMBER 31, 2021**

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Store sales	\$ 2,991,212
Franchise fees	15,000
Royalties	1,489,879
Advertising contributions	<u>59,600</u>
	<u>\$ 4,555,691</u>

See independent auditor's report

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF COST OF SALES**  
**YEAR ENDED DECEMBER 31, 2021**

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Beginning inventory	\$ 28,355
Purchases of materials and supplies	820,633
Ending inventory	<u>(41,218)</u>
Total materials and supplies	<u>807,770</u>
Other costs	
Labor	472,120
Commissions	12,590
Employee benefits and retirement	29,542
Freight and shipping	6,568
Product development	37,457
Payroll taxes	41,027
Rent and utilities	<u>95,778</u>
	<u>695,082</u>
	<u>\$ 1,502,852</u>

See independent auditor's report

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEAR ENDED DECEMBER 31, 2021**

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Advertising, promotion and marketing	\$ 196,139
Bank and credit card fees	67,201
Dues and subscriptions	7,462
Employee benefits and retirement	81,399
Franchisee support	30,261
Insurance	69,304
Meals and entertainment	12,458
Office and supplies	27,832
Payroll	1,230,098
Payroll taxes	106,926
Professional fees	189,304
Rent	102,455
Repairs and maintenance	5,846
Taxes and licenses	5,293
Technology	75,699
Telephone and utilities	38,531
Travel	37,113
Vehicle, parking and tolls	74,672
	<u>\$ 2,357,993</u>

See independent auditor's report

# CLOSETS UNLIMITED OF NEW JERSEY, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

*For the Years Ended December 31, 2020 and 2019  
With Independent Auditors' Report*



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**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

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## INDEPENDENT AUDITORS' REPORT

To the Stockholder of  
Closets Unlimited of New Jersey, Inc.  
West Berlin, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of Closets Unlimited of New Jersey, Inc. (a New Jersey S-Corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and accumulated deficit, 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.

### Auditors' 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 auditors' 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 purpose 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 Closets Unlimited of New Jersey, 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.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 19, 20, and 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read 'J.P. Sullivan'.

John P. Sullivan, CPA/ABV, CVA  
President, Sullivan Strategic  
Voorhees, New Jersey  
February 19, 2021



**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

Balance Sheets  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 273,792	\$ 87,294
Accounts receivable, net	141,400	128,498
Inventory	28,355	34,488
Employee advances	<u>1,200</u>	<u>1,200</u>
Total current assets	<u>444,747</u>	<u>251,480</u>
Property and equipment:		
Machinery and equipment	424,401	415,221
Office equipment	168,492	162,285
Furniture and fixtures	29,990	29,990
Vehicles	253,645	217,031
Leasehold improvements	<u>23,087</u>	<u>18,087</u>
	899,615	842,614
Less: accumulated depreciation	<u>(760,525)</u>	<u>(692,630)</u>
Property and equipment, net	<u>139,090</u>	<u>149,984</u>
Other assets:		
Security deposits	16,569	16,569
Intangible assets, net	<u>226,667</u>	<u>256,667</u>
Total other assets	<u>243,236</u>	<u>273,236</u>
Total assets	<u>\$ 827,073</u>	<u>\$ 674,700</u>

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*See independent auditors' report and notes to the financial statements.*

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

Balance Sheets  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Liabilities and Stockholder's Equity (Deficit)</u>		
Current liabilities:		
Line of credit	\$ 189,994	\$ 189,994
Long term debt, current portion	65,103	56,727
Capital lease obligations, current portion	3,574	3,272
Accounts payable	52,670	235,206
Accrued expenses	<u>104,407</u>	<u>66,323</u>
Total current liabilities	415,748	551,522
Long term liabilities:		
Long term debt, net of current portion	133,780	142,895
Capital lease obligations, net of current portion	8,850	-
Stockholder advances	<u>-</u>	<u>191,067</u>
Total long term liabilities	<u>142,630</u>	<u>333,962</u>
Total liabilities	558,378	885,484
Stockholder's equity (deficit)		
Common stock - \$1 par value; 1,000 shares authorized; 300 shares issued and outstanding	300	300
Additional paid in capital	844,977	844,977
(Accumulated deficit)	<u>(576,582)</u>	<u>(1,056,061)</u>
Total stockholder's equity (deficit)	<u>268,695</u>	<u>(210,784)</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ 827,073</u>	<u>\$ 674,700</u>

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*See independent auditors' report and notes to the financial statements.*

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

Statement of Income and (Accumulated Deficit)  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues	\$ 3,469,582	\$ 3,224,735
Cost of sales	<u>611,588</u>	<u>623,863</u>
Gross profit	2,857,994	2,600,872
Operating expenses:		
Selling and administrative	2,486,636	2,450,143
Depreciation	67,895	62,697
Amortization	<u>30,000</u>	<u>30,000</u>
Total operating expenses	2,584,531	2,542,840
Income from operations	273,463	58,032
Other income (expense):		
Interest expense	(24,087)	(19,718)
Government grant income (see Note 12)	<u>294,412</u>	<u>-</u>
Total other income (expense), net	270,325	(19,718)
Income before provision for income tax	543,788	38,314
Provision for income tax	<u>14,309</u>	<u>2,300</u>
Net income	529,479	36,014
(Accumulated deficit) - January 1	(1,056,061)	(1,092,075)
Stockholder's distributions	<u>(50,000)</u>	<u>-</u>
(Accumulated deficit) - December 31	<u>\$ (576,582)</u>	<u>\$ (1,056,061)</u>

*See independent auditors' report and notes to the financial statements.*

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

Statement of Cash Flows  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income	\$ 529,479	\$ 36,014
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	97,895	92,697
(Increase) decrease in assets	(6,769)	(18,764)
Increase (decrease) in current liabilities	<u>(144,452)</u>	<u>41,387</u>
Net cash provided by operating activities	<u>476,153</u>	<u>151,334</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(6,269)</u>	<u>-</u>
Net cash used in investing activities	<u>(6,269)</u>	<u>-</u>
Cash flows from financing activities:		
Repayments of long term debt	(36,083)	(67,021)
Repayments on capital lease obligations	(6,236)	(21,996)
Net borrowings on line of credit	-	8,000
Stockholder's distributions	(50,000)	-
Net repayments on stockholder advances	<u>(191,067)</u>	<u>(28,000)</u>
Net cash used in financing activities	<u>(283,386)</u>	<u>(109,017)</u>
Net increase in cash	186,498	42,317
Cash and cash equivalents, January 1	<u>87,294</u>	<u>44,977</u>
Cash and cash equivalents, December 31	<u>\$ 273,792</u>	<u>\$ 87,294</u>
Supplemental Disclosures		
Interest Paid in Cash	\$ 24,087	\$ 19,718
Income Taxes in Cash	\$ 1,500	\$ 2,300

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*See independent auditors' report and notes to the financial statements.*

## **CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

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### **Note 1 Organization and Nature of Activities**

Closets Unlimited of New Jersey, Inc. (hereinafter the “Company”), trading as Closet & Storage Concepts and More Space Place, designs, manufactures and installs organizational and storage products used in residential and business settings. In addition, since 2000, the Company has sold and supported, with product and marketing, franchises in markets throughout the United States. At the end of 2020, the Company serviced ten individually owned franchises trading as Closet & Storage Concepts and twenty-seven individually owned franchises trading as More Space Place.

The Company is headquartered in West Berlin, NJ and operates three Closet & Storage Concepts company-owned locations servicing New Jersey, Pennsylvania, Delaware and Maryland and one More Space Place location serving Palm Beach County, Florida. Many of the products installed are for residential closet use; designs often include multiple levels of hanging poles for clothing, shelving for folded garments, shoe racks, tie racks, belt racks, drawers, baskets, as well as other space saving home furnishings such as Murphy wall beds. Other designs and products are developed to the customer's specific needs.

### **Note 2 Summary of Significant Accounting Policies**

The Company transitioned to FASB Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), from ASC Topic 605, Revenue Recognition and ASC Subtopic 952-605, Franchisors - Revenue Recognition (together, the “Previous Standards”) on January 1, 2019 using the modified retrospective transition method. Our Financial Statements reflect the application of ASC 606 guidance beginning in 2019, while our financial statements for prior periods were prepared under the guidance of Previous Standards. The Company has determined that the adoption of this standard is not expected to have a material impact on the Company’s overall financial statements with the exception of the following. Under previous standards, the advertising contributions collected from franchisees were reported as a net reduction to advertising expenses. Under the new standard, advertising contributions are reported gross as part of revenue. This change has no impact on net income and accordingly, there is no cumulative effect of our transition to ASC 606 reflected as an adjustment to January 1, 2019 stockholder’s deficit.

**Note 2 Summary of Significant Accounting Policies (*Continued*)**

ASC 606 eliminates industry-specific guidance and provides a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of ASC 606 is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the reporting entity expects to be entitled in exchange for those goods or services.

Revenue Recognition Significant Accounting Policies under ASC 606

*Franchise revenue*

Franchise revenues consist primarily of royalties, NAP advertising contributions, and initial franchise fees.

The Company's primary performance obligation under the franchise license is granting certain rights to use the Company's intellectual property, and all other services the Company provides under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for under ASC 606 as a single performance obligation, which is satisfied by granting certain rights to use our intellectual property.

Royalties are calculated as a percentage of the franchisee's sales. Franchisee contributions to national advertising funds are based on a fixed dollar assessment. Under our franchise agreements, advertising contributions paid by franchisees must be spent on advertising, marketing and related activities. Our franchise royalties, as well as our NAP contributions, represent sales-based royalties that are related entirely to our performance obligation under the franchise agreement and are recognized as franchise sales occur.

Initial franchise fees are payable by the franchisee upon signing a new franchise agreement or successor franchise agreement. Revenue from initial fees is recognized when the performance obligation is satisfied. Performance obligations that are normally satisfied by the opening of the franchised business to the public are determined to be earned during the period from the execution of the contract to the opening of the franchised business which is generally less than one year. Unearned initial fee revenues from franchisee acquisition and acceptance will be recorded as deferred non-refundable revenue and recognized as revenue over the term of the contract which is currently 10 years.

**Note 2 Summary of Significant Accounting Policies (*Continued*)**

*Corporate-owned stores revenue*

The Company receives payments from customers based on a billing schedule as established in our contracts. Contract asset relates to our conditional right to consideration for our completed performance under the contract. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) we perform under the contract.

Estimates

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

On March 11, 2020, the World Health Organization designated the novel coronavirus ("COVID-19") a global pandemic, and a national emergency was subsequently declared by the U.S. government. The efforts to contain it have, among other things, negatively impacted the global economy and created significant volatility and disruption of financial markets. In addition, the COVID-19 pandemic has significantly increased economic and demand uncertainty. The Company believes the estimates and assumptions underlying the accompanying financial statements are reasonable and supportable based on the information available at the time the financial statements were prepared. However, uncertainty over the impact COVID-19 will have on the global economy and the Company's business in particular makes many of the estimates and assumptions reflected in these financial statements inherently less certain. Therefore, actual results may ultimately differ from those estimates to a greater degree than historically.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Note 2 Summary of Significant Accounting Policies (*Continued*)**

Trade Receivables

Trade receivables are shown net of an allowance for bad debts of \$0 at December 31, 2020 and 2019. The Company's policy is to extend credit to customers that management has determined to be credit-worthy. The Company considered all remaining accounts receivable at December 31, 2020 and 2019 to be fully collectible.

Inventories

Inventory is comprised primarily of raw materials (e.g. laminate, accessories, closet hardware) which have not been charged to specific jobs as well as logo and promotional items sold to the franchises. Due to the custom nature of the Company's business model, there are no finished goods inventory and work-in-progress inventory is minimal. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method. Market is determined by the most recent selling price. The inventory at December 31, 2020 and 2019 was \$28,355 and \$34,488, respectively.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment for financial reporting purposes is provided using the straight-line method over their respective estimated useful lives ranging from 5 to 15 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property and equipment is sold or otherwise disposed of, the asset account and any accumulated depreciation accounts are relieved, and any gain or loss is included in other income and expense on the income statement.

The carrying amount of all long-lived assets is evaluated periodically to determine if an adjustment to the depreciation period, or the non-depreciated balance is warranted. Based on its most recent analysis, the Company believes that no impairment of property and equipment exists.



**Note 2 Summary of Significant Accounting Policies (*Continued*)**

Intangible Assets

Intangible assets are amortized on a straight-line basis over their useful lives, estimated to be fifteen years. Intangibles primarily exist relating to the acquisition of certain franchise costs and restrictive covenants on October 31, 2013. There has been no impairment loss related to the intangibles as of December 31, 2020.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, Intangibles–Goodwill and Other (Topic 350). The new guidance simplifies the accounting for intangible asset impairment by eliminating Step 2 from the intangible asset impairment test. The guidance requires, among other things, recognition of an impairment loss when the fair value of a reporting unit exceeds its carrying amount. The loss recognized is limited to the total amount of intangible assets allocated to that reporting unit. Effective January 1, 2020, the Company early adopted ASU 2017-04 and it did not have a material impact on the statements of financial position, results of operations, cash flows, or on the disclosures contained in the notes to these financial statements.

Intangible assets are tested for impairment at least annually on December 31, or more frequently if events or changes in circumstances, such as a significant decline in sales, earnings, or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If, after assessing the totality of events or circumstances, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, additional impairment testing is not required. If the Company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative intangible impairment assessment will be performed. The quantitative impairment analysis may include an assessment of certain qualitative factors including, but not limited to, the results of prior fair value calculations, overall financial performance of the reporting units, and industry conditions. The Company believes the factors considered in the impairment analysis are reasonable and are comparable to those that would be used by other market participants. Based on the Company's fiscal year 2020 and 2019 impairment analysis, the Company did not identify any impairment to the intangible assets.

**Note 2 Summary of Significant Accounting Policies (*Continued*)**

Cost of Sales

Cost of sales consists of primarily of direct costs such as materials and supplies related to its closet design, manufacturing, and installation sales.

Selling and Administrative Expenses

Selling and administrative expenses consist of compensations for all employees, advertising, insurance, rents, professional fees, technology services and supplies, travel and entertainment, and other administrative costs.

Advertising

Advertising costs are expensed as incurred. Logo and promotional items sold to the franchises are inventoried and expensed as sold to the franchises. Advertising expense totaled \$161,852 and \$159,010 for the years ended December 31, 2020 and 2019, respectively.

Warranties

The Company provides a warranty on all materials and workmanship for all sales of items delivered and installed for as long as the customer occupies the premises in which such products were installed; except for the following actions which will void the warranty:

1. The customer fails to pay all the agreed upon compensations upon completion of the project.
2. The customer subjects the project to use other than for it's reasonable and intended usage.
3. The project is removed and is not removed and reinstalled by the Company.

Based upon prior experience, the amount of warranty obligations is not material. Therefore, no provision for potential claims has been included in the financial statements.

Sales Tax

The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed on sales are recorded as accrued liabilities on the balance sheet until remitted to the state agencies.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalent accounts held at one financial institution and accounts receivable.

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**Note 2 Summary of Significant Accounting Policies (*Continued*)**

Income Taxes

The Company has elected by unanimous consent of its shareholder to be taxed under the provisions of subchapter "S" of the Internal Revenue Code. In lieu of corporation income taxes, the shareholder of an S corporation is taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. However, there is a provision for the required state income taxes. While the Company has elected New Jersey S corporation status, it has also made an annual election for the 2020 New Jersey Pass-Through Business Alternative Income Tax (PTE). Under this election, the Company is agreeing to pay tax due on the owner's share of distributive proceeds. The owner may then claim a refundable tax credit for the amount of tax paid by the pass-through entity on their share of distributive proceeds. The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2016-2020. In evaluating the Company's tax provisions and accruals, interpretations and tax planning strategies are considered. The Company believes their tax positions are appropriate based on current facts and circumstances.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Recent Accounting Pronouncements

In January 2021, the Financial Accounting Standards Board (FASB) issued ASU 2021-02, Franchisors – Revenue from Contracts with Customers (Subtopic 952-606), which allows a franchisor that is not a public business entity ("private-company franchisor") to use a practical expedient when identifying performance obligations in its contracts with customers (i.e., franchisees) under ASC 606.2 When using the practical expedient, a private-company franchisor that has entered into a franchise agreement would treat certain preopening services provided to its franchisee as distinct from the franchise license. The practical expedient is intended to reduce the cost and complexity of applying ASC 606 to preopening services associated with initial franchise fees. The Company is currently evaluating the effects this new guidance will have on its financial statements.

Date of Management Evaluation of Subsequent Events

Management has evaluated subsequent events through February 19, 2021, the date on which the financial statements were available to be issued.

## CLOSETS UNLIMITED OF NEW JERSEY, INC.

Financial Statements for the Years Ended December 31, 2020 and 2019

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### Note 3 Franchise Operations

Franchise activity for the year ended December 31, 2020 is as follows:

Franchises opened	0
Franchises sold	0
Franchises in operation	36
Company-owned locations	4
Franchises closed	1
Franchises reacquired from franchisees	0
Franchises transferred to new franchisees	0
Franchises ceased operations – other reasons	0

### Note 4 Related Party Transactions

The Company's sole stockholder has advanced funds to the Company for working capital purposes. No note or repayment schedule exists and the advance bears no interest. The shareholder has waived his rights to payment prior to other obligations, therefore, the advances are classified as long term on the balance sheet.

The Company's sole stockholder owns a separate entity that, in 2014, acquired substantially all of the assets and operations of a manufacturing entity that contractually supplies all of the "More Space Place" franchises.

### Note 5 Retirement Plans

The Company sponsors the Closet & Storage Concepts 401 (K) Plan. The Plan covers all employees of age 21 with one year of service and 1,000 hours of service or more. The profit sharing feature has a tiered contribution formula. Retirement expense for the years ended December 31, 2020 and 2019 were \$20,453 and \$21,185, respectively.

### Note 6 Line of Credit

On September 5, 2014, the Company obtained a line of credit from TD Bank in the amount of \$200,000. Interest is payable at varying dates based on the bank's prime rate plus 0.49% (total of 3.75% at December 31, 2020 and 5.24% at December 31, 2019). The line of credit is guaranteed by the Company's sole stockholder and is collateralized by assets of the Company. As of December 31, 2020 and 2019, \$189,994 and \$189,994 was outstanding on the line of credit.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

**Note 7 Term Debt Obligations**

The following is a summary of long-term debt obligations at December 31:

	2020	2019
Note payable to TD Bank. The loan is payable over 119 months at \$2,601 per month at 5.49% interest and matures in May 2022. The loan is personally guaranteed by the Company's sole stockholder and spouse, and is collateralized by their residence.	\$ 56,027	\$ 69,531
Note payable to GM Financial. The loan is payable over 72 months at \$493 per month at 4.9% interest and matures February 2023. The loan is collateralized by a vehicle.	12,143	16,338
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures July 2024. The loan is collateralized by a vehicle.	20,019	23,233
Note payable to GM Financial. The loan is payable over 72 months at \$519 per month at 5.99% interest and matures July 2024. The loan is collateralized by a vehicle.	20,019	23,233
Note payable to Bank of the West. The loan is payable over 84 months at \$1,456 per month at 5.34% interest and matures August 2024. The loan is collateralized by equipment. The loan can be voluntarily prepaid after the initial 12 payments.	58,081	67,287
Note payable to Ford Motor Credit. The loan is payable over 60 months at \$634 per month at 2.9% interest and matures August 2025. The loan is collateralized by a vehicle.	32,594	-
	198,883	199,622
Less: Current portion	65,103	56,727
Total	\$ 133,780	\$ 142,895

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**Financial Statements for the Years Ended December 31, 2020 and 2019

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**Note 7 Term Debt Obligations (Continued)**

Following is a summary of scheduled principal payments for the long-term debt obligations as of December 31, 2020:

2021	\$ 65,103
2022	68,338
2023	35,187
2024	17,832
2025 and thereafter	<u>12,423</u>
Total	<u>\$ 198,883</u>

**Note 8 Capitalized Lease Obligations**

The Company has capital lease commitments related to equipment purchases. The future minimum payments under the capitalized lease obligations are due as follows:

Total minimum lease payments (2020)	\$ 13,973
Amount representing interest	<u>1,549</u>
Present value of minimum lease payments	<u>\$ 12,424</u>

The present value of minimum future obligations shown above is calculated based on the effective annual weighted average interest rate of 6.8%.

The capitalized cost of the equipment under capital lease is \$15,388 at December 31, 2020, and is included in the office equipment account on the balance sheet. Amortization of the capitalized cost of the equipment is charged to depreciation expense. The accumulated depreciation on this equipment was \$2,279 at December 31, 2020.

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

**Note 9 Operating Lease Commitments**

The Company's leasing operations consist principally of leasing office, retail, warehouse space and vehicles under operating leases that have various expiration dates. Rent expense for the years ended December 31, 2020 and 2019 was \$177,641 and \$175,494, respectively. The following is a schedule by years of approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2020.

2021	\$ 150,130
2022	92,156
2023	<u>69,117</u>
Total	<u>\$ 311,403</u>

**Note 10 Supplemental Cash Flow Disclosures**

The following is a summary of the non-cash investing and financing activities for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Acquisition of property and equipment	\$ 57,001	\$ -
Debt obligations incurred	(35,344)	-
Capital lease obligations incurred	<u>(15,388)</u>	<u>-</u>
Cash paid for property and equipment	<u>\$ 6,269</u>	<u>\$ -</u>

**Note 11 Acquisition of Franchise**

On October 31, 2013, the Company purchased certain assets of More Space Place, Inc. for \$ 450,000. Identifiable intangible assets recorded in connection with the October 31, 2013 More Space Place, Inc. acquisition shown net of accumulated amortization at December 31, 2020 consisted of the following:

	<u>Gross</u>	<u>Amortization</u>	<u>Net</u>
Qualified Franchise Agreements	\$ 300,000	\$ 145,000	\$ 155,000
Non-Competition Agreement	<u>\$ 150,000</u>	<u>\$ 78,333</u>	<u>\$ 71,667</u>
Total	<u>\$ 450,000</u>	<u>\$ 223,333</u>	<u>\$ 226,667</u>

Amortization expense was \$30,000 for each year ended December 31, 2020 and 2019. There was no impairment loss in 2020 or 2019. Future amortization is scheduled at approximately \$30,000 per year through 2028.



**Note 12 Coronavirus Aid Relief and Economic Security (CARES) Act**

Paycheck Protection Program

In response to the COVID-19 pandemic, the Paycheck Protection Program ("PPP") was established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the United States Small Business Administration ("SBA"). Companies who met the eligibility requirements set forth by the PPP could qualify for PPP loans. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the PPP loan, along with any accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization.

In April 2020, the Company received a loan of \$294,412 under the PPP provided by TD Bank. The loan bears interest at 1.0%, with principal and interest payments deferred for the first six months of the loan. After that, the loan and interest would be paid back over a period of 18 months, if the loan is not forgiven under the terms of the PPP.

When applying for the loan, the Company believed there was reasonable assurance and high probability that the qualifying costs would be forgiven under the terms of PPP, and therefore considered the loan to be substantively a conditional government grant under Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20"). Derecognition of the liability for the portion of the loan that has been forgiven is included as "other income" on the statement of operations and comprehensive income. The Company completed the required activities by utilizing the PPP proceeds for payroll and other qualified expenditures prior to December 31, 2020 and has recognized PPP grant income in the amount of \$294,412. As a result, no liability is reflected in the balance sheet as of December 31, 2020. The Company submitted the PPP loan forgiveness application on September 18, 2020 and received notification of formal forgiveness approval on December 3, 2020.



**CLOSETS UNLIMITED OF NEW JERSEY, INC.**Financial Statements for the Years Ended December 31, 2020 and 2019

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Schedules of Revenues  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Store sales	\$ 2,198,110	\$ 2,004,657
Franchise fees	-	53,250
Royalties	1,212,472	1,106,828
Advertising contributions	<u>59,000</u>	<u>60,000</u>
Total revenues	<u>\$ 3,469,582</u>	<u>\$ 3,224,735</u>

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*See independent auditors' report.*

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**Financial Statements for the Years Ended December 31, 2020 and 2019

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Schedules of Cost of Sales  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Beginning inventory	\$ 34,488	\$ 31,890
Purchases of materials and supplies	586,687	584,218
Ending inventory	<u>(28,355)</u>	<u>(34,488)</u>
Cost of materials and supplies	592,820	581,620
Other costs:		
Commissions paid	12,559	31,986
Freight	<u>6,209</u>	<u>10,257</u>
Total cost of sales	<u>\$ 611,588</u>	<u>\$ 623,863</u>

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*See independent auditors' report.*

**CLOSETS UNLIMITED OF NEW JERSEY, INC.**

Financial Statements for the Years Ended December 31, 2020 and 2019

Schedules of Selling and Administrative Expenses  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Advertising, promotion and marketing	\$ 161,852	\$ 159,010
Bank and credit card fees	60,607	63,955
Contributions	2,746	1,800
Dues	1,569	15,101
Employee benefits expense	54,696	63,855
Franchise support	272	60,000
Insurance expense	58,775	64,249
Meals and entertainment	5,814	5,438
Office expenses and supplies	32,361	35,780
Parking and tolls	8,387	7,400
Payroll	1,482,051	1,342,145
Payroll service	3,638	2,320
Payroll tax expense	119,885	110,426
Pension expense	20,453	21,185
Printing	1,936	1,750
Professional fees	104,785	117,012
Rent	177,641	175,494
Repairs and maintenance	6,739	5,980
Security	828	679
Taxes and licenses	2,710	4,088
Technology support	62,631	48,309
Telephone	19,220	19,689
Trash removal	7,261	5,916
Travel	13,481	37,685
Utilities	22,421	21,538
Vehicles expenses	<u>53,877</u>	<u>59,339</u>
Total selling and administrative expenses	<u>\$ 2,486,636</u>	<u>\$ 2,450,143</u>

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*See independent auditors' report.*

# **Exhibit F**

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## **STATE ADDENDUM**

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**Closets Unlimited of New  
Jersey, Inc.**

## **STATE ADDENDUM**

### **CALIFORNIA APPENDIX**

1. Item 5 of the Disclosure Document is amended to provide that all of the initial fees (payable under the Franchise Agreement) shall be deferred until franchisor has satisfied all of the pre-opening obligations to franchisee, and franchisee has commenced doing business. The California Department of Financial Protection and Innovation has imposed this deferral requirement due to the franchisor's financial condition.
2. California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement contains provisions that are inconsistent with the law, the law will control.
3. 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.).
4. The Franchise Agreement contains covenants not to compete which extend beyond the termination of the agreements. These provisions may not be enforceable under California law.
5. Section 31125 of the California Corporation Code requires the franchisor to provide you with a disclosure document before asking you to agree to a material modification of an existing franchise.
6. Neither the franchisor, any person or franchise broker in Item 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 79a et seq., suspending or expelling such persons from membership in such association or exchange.
7. The Franchise Agreement requires that any litigation be conducted in the then-current State and County where our corporate headquarters is located. 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.
8. The Franchise Agreement requires application of the laws of New Jersey. This provision may not be enforceable under California law.
9. You must sign a general release if you renew or transfer your franchise. California Corporation Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).
10. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

11. The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
12. OUR WEBSITES, [www.closetandstorageconcepts.com](http://www.closetandstorageconcepts.com) and [www.morespaceplace.com](http://www.morespaceplace.com) HAVE NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THESE WEBSITES MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at [www.dfpi.ca.gov](http://www.dfpi.ca.gov).
13. The Antitrust Law Section of the Office of the California Attorney General views maximum price agreements as per se violations of the Cartwright Act. Any restrictions on pricing may not be enforceable under California law.
14. Spousal liability. Your spouse will be 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.

**ADDENDUM TO THE FRANCHISE AGREEMENT REQUIRED BY THE STATE OF CALIFORNIA**

This addendum between \_\_\_\_\_ and CLOSETS UNLIMITED OF NEW JERSEY, INC. effectively amends and revises the Franchise Agreement dated \_\_\_\_\_, 20\_\_, (the “Franchise Agreement”) as follows:

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

Except for the foregoing, all other provisions of the Franchise Agreement remain valid and unchanged.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

CLOSETS UNLIMITED OF NEW JERSEY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ADDENDUM REQUIRED BY THE STATE OF ILLINOIS**

The following items must be included within the Disclosure Document and Franchise Agreement and shall replace any conflicting language that is in the Disclosure Document and the Franchise Agreement, to the extent applicable:

1. Illinois law governs the Franchise Agreement.
2. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
3. Franchisees' rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.
4. In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.
5. No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

CLOSETS UNLIMITED OF NEW JERSEY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



## **ADDENDUM REQUIRED BY THE STATE OF MINNESOTA**

This addendum to the Disclosure Document is agreed to this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and effectively amends and revises said Disclosure Document and Franchise Agreements as follows:

1. Item 13 of the Disclosure Document and the appropriate section of the Franchise Agreements are amended by the addition of the following language to the original language that appears therein, to the extent applicable:

“In accordance with applicable requirements of Minnesota law, Franchisor shall protect Franchisee’s right to use the trademarks, service marks, trade names, logotypes or other commercial symbols and/or shall indemnify Franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding such use.”

2. Item 17 of the Disclosure Document, and the appropriate sections of the Franchise Agreements are amended by the addition of the following language to the original language that appears therein, to the extent applicable:

“With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes Sec. 80C.14, Subds.3, 4 and 5, which require (except in certain specified cases) that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of the franchise agreement and that consent to the transfer of the franchise will not be unreasonably withheld.”

3. Item 17 of the Disclosure Document, and the appropriate sections of the Franchise Agreements are amended by the addition of the following language to amend the Governing Law, Jurisdiction and Venue, and Choice of Forum sections, to the extent applicable:

“Minn. Stat. Sec. 80C.21 and Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreements can abrogate or reduce any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.”

4. Item 17 of the Disclosure Document and the appropriate sections of the Franchise Agreements are amended by the addition of the following language to the original language that appears therein, to the extent applicable:

“Minn. Rule 2860.4400D prohibits us from requiring you to assent to a general release.”

5. Any reference to liquidated damages in the Franchise Agreements is hereby deleted in accordance with Minn. Rule 2860.4400J which prohibits requiring you to consent to liquidated damages, to the extent applicable.

6. Any reference to waiver of a jury trial in the Franchise Agreements is hereby deleted in accordance with Minn. Rule 2860.4400J, to the extent applicable.

7. Any offending sections of the Franchise Agreements regarding Limitations of Claims are hereby amended to comply with Minn. Stat. §80C.17, Subd. 5, to the extent applicable.

8. Item 6, Insufficient Fund Fees: NSF fees are governed by Minnesota Statute 604.113; which puts a cap of \$30 on a NSF check, to the extent applicable. This applies to everyone in Minnesota who accepts checks except banks.

9. Under Minn. Rule 2860.440J, the franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. A court will determine if a bond is required. The appropriate sections of the Franchise Agreements are hereby amended accordingly, to the extent applicable.

10. The Franchise Agreements and Items 5 and 7 of the Franchise Disclosure Document are amended to provide that payment of initial franchise fees will be deferred until Franchisee has opened the franchised business.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

CLOSETS UNLIMITED OF NEW JERSEY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## NEW YORK

The franchisor has represented the following:

- 1) that no portion of the initial franchise fee has been allocated to the trademark or intellectual property; and
- 2) that the initial franchise fee consists only of payments for initial training, site selection assistance, lease review, showroom design guidance, grand opening consultation and support during the first weeks of operation. All of which is distinct from and not brand or trademark related to the franchisor.

1. The following information is added to the cover page of the Franchise Disclosure Document:

**INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THE FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE NYS DEPARTMENT OF LAW, INVESTOR PROTECTION BUREAU, 28 LIBERTY STREET, 21<sup>ST</sup> FLOOR, NEW YORK, NY 10005. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FOR IN THIS FRANCHISE DISCLOSURE DOCUMENT.**

2. The following is added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

- A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices or comparable civil or misdemeanor allegations.
- B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.
- C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10 year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.
- D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under 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, or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of Item 4:

Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.

4. The following is added to the end of Item 5:

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

5. The following is added to the end of the “Summary” sections of Item 17(c), titled **“Requirements for franchisee to renew or extend,”** and Item 17(m), entitled **“Conditions for franchisor approval or transfer”**:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

6. The following language replaces the “Summary” section of Item 17(d), titled **“Termination by franchisee”**:

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

7. The following is added to the end of the “Summary” section of Item 17(j), titled **“Assignment of contract by franchisor”**:

However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the franchise agreement.

8. The following is added to the end of the “Summary” sections of Item 17(v), titled **“Choice of forum”**, and Item 17(w), titled **“Choice of law”**:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

CLOSETS UNLIMITED OF NEW JERSEY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FRANCHISEE:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## 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:

State	Effective Date
California	Pending
Minnesota	Pending
Michigan	Pending
New York	Pending
Illinois	Pending

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

**RECEIPT**  
**(KEEP THIS COPY FOR YOUR RECORDS)**

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 Closets Unlimited of New Jersey, Inc. ("Franchisor") offers you a franchise, Franchisor must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement or make a payment to us or an affiliate in connection with the proposed franchise sale. New York and Iowa require that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days (14 calendar days in Iowa) 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 or the payment of any consideration, whichever occurs first.

If Franchisor does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate State agency Identified in Exhibit A.

The Franchisor is Closets Unlimited of New Jersey, Inc., 436 Commerce Lane, Suite D, West Berlin, NJ 08091, (856) 627-5700.

Issuance Date: April 19, 2023 (Effective dates of this Disclosure Document in states requiring registration can be found on the State Effective Date page).

The name, principal business address and telephone number of the franchise sellers offering the franchise are: (check all that apply)

☐ Robert Lewis, 436 Commerce Lane, Suite D, West Berlin, NJ 08091, (856) 627-5700

☐ \_\_\_\_\_

Franchisor authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

I have received a Franchise Disclosure Document dated April 19, 2023 that included the following Exhibits:

Exhibit A -	List of State Administrators/Agents for Service of Process
Exhibit B -	Closet & Storage Concepts Franchise Agreement
Exhibit C -	Table of Contents – Closet & Storage Concepts Operations Manual
Exhibit D -	List of Closet & Storage Concepts Franchisees
Exhibit E -	Financial Statements
Exhibit F-	State Addendum

Dated: \_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee

\_\_\_\_\_  
(Print Name)

Please execute and return this document immediately upon receipt via the method prescribed by the Franchisor.

**RECEIPT**  
**(RETURN THIS COPY TO US)**

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 Closets Unlimited of New Jersey, Inc. ("Franchisor") offers you a franchise, Franchisor must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement or make a payment to us or an affiliate in connection with the proposed franchise sale. New York and Iowa require that we give you this Disclosure Document at the earlier of the first personal meeting or 10 business days (14 calendar days in Iowa) 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 or the payment of any consideration, whichever occurs first.

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☐ \_\_\_\_\_

Franchisor authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

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Exhibit E -	Financial Statements
Exhibit F-	State Addendum

Dated: \_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee

\_\_\_\_\_  
(Print Name)

Please execute and return this document immediately upon receipt via the method prescribed by the Franchisor.