

FRANCHISE DISCLOSURE DOCUMENT

CBD FRANCHISING, INC.

A California Corporation
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The franchisee will operate a retail sales, manufacturing, and installation business selling closets, garage cabinets and other home organizer systems within a designated territory. The total investment necessary to begin operation of a Closets by Design franchise is \$152,000 to \$507,000 (not including real property). This includes \$38,000 to \$55,000 that must be paid to the franchisor or an affiliate.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Sales Administrator at 13272 Garden Grove Blvd., Garden Grove, California 92843; (714) 890-5860.

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

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

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

Issuance Date: April 28, 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
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit C.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibits B includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Closets by Design business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Closets By Design franchisee?	Item 20 or Exhibit C lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

Some States Require Registration

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

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 State of California. 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 state, county and judicial district in which the franchisor's principal place of business is then located than in your own state.
2. **Minimum Royalty Payments**. You must make minimum royalty payments or advertising contributions regardless of your sales levels. Your inability to make these payments may result in termination of your franchise and loss of your investment.
3. **Spouse Liability**. Your spouse must sign a document that makes your spouse liable for all financial obligation under the franchise agreement even though your spouse has no ownership interest in the franchise. This guaranty will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

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

CBD FRANCHISING, INC.
dba Closets By Design
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ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

In this franchise disclosure document, “CBDF”, “we” or “us” means CBD Franchising, Inc., the franchisor. “You” means the person who buys the Closets By Design franchise, and each equity owner of the franchisee entity. If you are a corporation, limited liability company (“LLC”) or other legal entity, “you” includes each of your owners, who will sign as a party and will also sign a Guarantee of the Franchise Agreement (see Exhibit 5 to the Franchise Agreement).

Franchisor, Parent, Predecessors and Affiliates

CBDF’s principal and corporate business address is 13272 Garden Grove Blvd., Garden Grove, California 92843. Our telephone number is (714) 890-5860.

CBDF does business under the name “Closets By Design®.” CBDF is a California corporation that was organized on March 31, 2001, the same date that CBDF acquired the assets (including a license to the trademarks) of its predecessor Closets By Design Franchising, LLC (“CBD-LLC”), a California limited liability company that was located 13151 South Western Avenue, Gardena, California 90249 and that had been selling Closets By Design franchises since January 1998. Several of the original CBD-LLC franchises were purchased by its affiliated company, Closet By Design, Inc., a California corporation (“CBDI”), which has operated them as company-owned outlets since April 2001 and licenses the trademarks to CBDF. The other franchises of CBD-LLC were assigned to CBDF on March 31, 2001. CBD-LLC no longer exists, and it never operated businesses of the type being franchised.

Our affiliate, Closets By Design, Inc., a California corporation with its principal address at 3860 Capitol Ave, Whittier, CA, 90601, has licensed us the right to use the Proprietary Marks and other intellectual property and to sublicense them to our franchisees in an intellectual property agreement dated as of April 12, 2001.

Since June 2001, CBDF has been offering franchises (“Franchises”) for the operation of retail outlets (“Outlets”) selling, manufacturing, and installing closets, home/office organizers and related products (collectively, “Organizers”) by independent operators throughout the United States. CBDF does not operate businesses of the type being franchised.

Our parent company is Home Organizers, Inc. (“HOI”). The principal business address of HOI is 3860 Capitol Avenue, Whittier, California 90601.

HOI also owns Closet World, Inc. (“CWI”), a company that owns and operates retail outlets that sell, manufacture, and install Organizers under the brand name “Closet World” as well as other affiliates operating under a variety of brand names. The principal business address of CWI is 3860 Capitol Avenue, Whittier, California 90601. CWI and other HOI owned affiliates are not engaged in franchising and do not provide goods or services to Closets By Design franchisees.

Agent for Service of Process

Our agents for service of process in the states whose franchise laws require us to name a state agency as agent for service are shown on Exhibit F.

The Business We Offer

The market for Organizers consists of homeowners and small businesses desiring to remodel closets, garages and other work spaces. The market is developing. Sales are not seasonal. The Franchise is a license for an initial term of 5 years (renewable for additional 5-year terms) permitting you to operate a location (“Location”) that offers Organizers under an assumed name containing service marks owned by CBDF. You may only use the Closets By Design service marks on the Internet as we specifically authorize in our confidential Operations Manual (the “Confidential Manual”), or otherwise in writing. All Closets By Design franchisees will compete with other closet and home organizer retail stores, chains and other closet, home/office organizer retailers offering products comparable to the Organizers.

The COVID-19 pandemic is ongoing and fluctuating in severity, which may impact local, regional and global economies and therefore impact your franchised business. You must, at all times, comply with all applicable laws, rules and orders of any government authority concerning the outbreak and your response. We reserve the right to make any adjustments to our services as we may determine necessary, in our sole judgement, from time to time in order to protect health and safety. These adjustments may include, by way of example but without limitation, suspending in-person gatherings such as trainings, meetings and conferences; instead, such events may be conducted virtually.

Applicable Regulations

You may be required to have a validly issued state contractor’s license to operate a Closets By Design franchise in your state (please see Exhibit E to this disclosure document). We do not represent that you will have the ability to procure any required license, permit, certificate or other governmental authorization that may be necessary or required for you to carry out the activities contemplated by the Franchise Agreement.

In addition, the laws, rules and regulations which apply to businesses in general will affect you. Consult your lawyer about them.

Prior Experience

CBDF does not do business under any other name. CBDF has not offered franchise agreements under a separate disclosure document. Our affiliated corporation, CBDI has directly operated Closets By Design businesses since 2001, at the following locations at 13151 South Western Avenue, Gardena, California; 1335 Park Center Drive, Vista, California; and 8383 Capwell Drive, Oakland, California. CBDF does not engage in business activities other than operating Closets By Design showrooms and selling and servicing Closets By Design franchises. Neither CBDF nor CBDI has offered franchises in other lines of business.

ITEM 2: BUSINESS EXPERIENCE

Chairman and CEO: Frank Melkonian.

Mr. Melkonian has been the Chairman and CEO of CBDF since 2007. He has also served as the Chairman and CEO of HOI, based in Whittier, California, since 2001 and as the Founder and CEO of CWI since 1991.

President and Director: Gerald “Jerry” Egner.

Mr. Egner was named President of CBDF in 2001. Also, he serves as a member of the Board of Directors of HOI (since August 2009).

Chief Financial Officer, Secretary, Treasurer and Director: Gerard A. Thompson.

Mr. Thompson joined CBDF as Chief Financial Officer, Secretary, Treasurer and Director in November 2005. He also serves as Senior Vice President, Chief Financial Officer and Director of HOI, and Chief Financial Officer, Secretary and Treasurer for CWI and all other wholly-owned subsidiaries of HOI (since November 2005).

ITEM 3: LITIGATION

Pending Litigation.

CBD Franchising, Inc. v. Central Jersey Doors & Closets, LLC; Mary Conway; William Conway; One Day Doors & Closets, Inc., and One Day Enterprises, LLC (Los Angeles Superior Court Case No. 22STCV13457).

On July 5, 2017 CBDF filed a complaint in New Jersey Superior Court, Chancery Division against the Defendants, former franchisees and a third-party distributor, for breach of contract, intentional interference with contract, and other related claims as a result of a violation of a non-competition covenant. In response to CBDF's complaint, the third-party distributor, One Day Doors & Closets, Inc. and One Day Enterprises, LLC, doing business as One Day Doors and Closets ("One Day Doors"), asserted counterclaims against CBDF for malicious abuse of process and tortious interference with contract. The Court granted CBDF's motion for a preliminary injunction, prohibiting, Mary and William Conway and Central Jersey Doors & Closets, LLC (collectively, the "Conway Defendants") from further engaging in business with One Day Doors and also issued a Contempt Order finding that the Conway Defendants violated the preliminary injunction by continuing to do business with One Day Doors. On April 14, 2020, the Court granted a Motion to Strike the Conway Defendants' Answer and to Enter Default and entered default against the Conway Defendants. CBDF submitted proof in support of an application for entry of default judgment on June 11, 2020 seeking a monetary award of \$1,634,435.67 (which has increased to \$1,691,341.33), plus prejudgment interest, and a two-year injunction to prevent the Conway Defendants from violation the post-termination clauses of their Franchise Agreement, including the non-competition covenant. Shortly thereafter, the Conway Defendants filed a motion to vacate the entry of default on June 26, 2020, which CBDF opposed.

On July 23, 2021, the Court granted the Conway Defendants' Motion to Set Aside the Default. Thereafter, the Court heard motions to dismiss the First Amended Complaint filed by the Conway Defendants and One Day Doors.

The Court ultimately denied the motions on the substantive grounds alleged, finding that the Conway Defendants' were bound by the franchise agreement but dismissed the case without prejudice finding that New Jersey is no longer the proper venue for this litigation (although finding it was a proper venue at the inception of the case) because the time period for the non-competition covenant had elapsed during the pendency of the case, and ordered CBDF to re-file the litigation in California.

CBDF received notice of the Court's Order on March 22, 2022 and promptly re-filed its claims against the Conway Defendants and One Day Doors in the Superior Court of California, County of Los Angeles on April 21, 2022. The Conway Defendants have been defaulted. One Day Doors unsuccessfully moved to dismiss the Complaint and the case is currently in discovery.

CBD Franchising, Inc. v. Frank Dres, Wilhelm Dres, 9209011 Canada Inc., 10277959 Canada Inc. (U.S. District Court, Central District of California, Case No. 8:22-cv-00313-ADS).

On February 28, 2022, CBDF filed a Complaint in the U.S. District Court, Central District of California (the ‘Civil Action’) against the franchisees and principals of CBDF’s former Montreal, Canada franchise, 9208011 Canada Inc., 10277959 Canada Inc., Frank Dres and Wilhelm Dres (the “Defendants”). CBDF’s Complaint asserts causes of action for 1) Breach of Written Agreement [Franchise Agreement]; 2) Breach of Written Agreement [Guarantor Agreement]; 3) Quantum Meruit; 4) Money Had and Received; and 5) Open Book Account. CBDF seeks \$172,597.82 in monetary damages in addition to its attorneys’ fees.

CBDF’s claims against the Defendants arise out of Defendants failure to make payment to CBDF on past due royalties, and other breaches of the operative Franchise Agreement and Guarantor Agreement. This litigation is currently in the discovery phase.

Concluded Litigation.

CBD Franchising, Inc. v. Van Alstyne, et al. United States District Court for the Central District of California (U.S. District Court, Central District of California, Case No. 8:20-cv-01491-JVS-DFM)

On August 11, 2020, CBDF filed a Complaint in the U.S. District Court, Central District of California against the principals of CBDF’s former Portland, Oregon franchise, Michael and Stephanie Van Alstyne (the “Van Alstynes”) (the “Civil Action”). CBDF’s Complaint asserts causes of action for 1) Breach of Written Agreement [Franchise Agreement]; 2) Breach of Written Agreement [Guarantor Agreement]; 3) Quantum Meruit; 4) Money Had and Received; 5) Open Book Account; and 6) Conversion. CBDF’s Complaint sought \$250,620.51 in monetary damages and an order compelling the Van Alstynes to return all property belonging to CBDF in their possession to CBDF, in addition to its attorneys’ fees.

CBDF’s claims against the Van Alstynes arose out of their abandonment of the CBDF Portland franchise, retention of customer deposits, failure to make payment to CBDF on past due royalties, and other breaches of the operative Franchise Agreement and Guarantor Agreement.

On September 3, 2020, the Van Alstynes filed a Chapter 7 Voluntary Bankruptcy Petition in the United States Bankruptcy Court, District Court of Oregon, thereby staying the civil litigation pursuant to 11 U.S.C. § 362. CBDF timely filed a proof of claim in the U.S. Bankruptcy Court for the District of Oregon.

CBDF recovered \$127,605.86 on its proof of claim. The Bankruptcy Proceeding has since been discharged and closed. Accordingly, CBDF dismissed the Civil Action on March 3, 2022.

Other than the above actions, there is no litigation that must be disclosed in this Item.

ITEM 4: BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

ITEM 5: INITIAL FEES

All Closets By Design franchisees pay a lump sum Initial Franchise Fee of \$20,000. The Initial Franchise Fee is due and payable when you sign the Franchise Agreement. If you have owned and operated a similar organizer business for 12 months before you join the Closets By Design system, CBDF may provide you with a re-identification allowance. CBDF does not offer any financing of the Initial Franchise Fee and there are no refunds under any

circumstances. In the previous fiscal year, no franchisees paid a reduced Initial Franchise Fee.

In addition to the Initial Franchise Fee, all Closets By Design franchisees pay a lump sum Territory Fee equal to the greater of (i) \$18,000 or (ii) \$1,000 for each increment or portion of 10,000 households in the Territory (typically not to exceed 350,000 households). The Territory Fee is due and payable when you sign the Franchise Agreement. CBDF may offer financing of the Territory Fee in certain situations (see Item 10). There are no refunds of the Territory Fee under any circumstances.

If you are purchasing an unoccupied developed market area, you may be required to pay a market development fee (“Market Development Fee”) in addition to the Initial Franchise Fee and Territory Fee. The Market Development Fee will vary drastically based on a number of qualitative factors, including, without limitation: (i) the size of the market area and (ii) the extent of development of the subject market area. The amount of the Market Development Fee and the terms upon which the Market Development Fee are payable are individually negotiated. CBDF may permit you to finance a portion of the Market Development Fee on a case-by-case basis. The Market Development Fee is not refundable under any circumstances. Last year, we charged Market Development Fees ranging from \$0 - \$200,000, however, the Market Development Fee that you and we negotiate may exceed what we charged last year.

CBDF is a member of the International Franchise Association and participates in IFA’s VetFran Program, which provides special financial incentives to qualified veterans. As part of this program, CBDF is offering a 10% discount on its initial franchise fee for qualified honorably discharged veterans.

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

You pay us or our affiliates no other fees or payments for services or goods before your Outlet opens.

ITEM 6: OTHER FEES

Type Of Fee	Amount	Due Date	Remarks
Continuing Royalty	The greater of (i) 6.75% of your previous month’s Gross Revenues, or (ii) the “Minimum Royalty” of \$3,000 per month.	On or before the 5 th day of each calendar month after the calendar month in which Gross Revenues were received. While the final Continuing Royalty is calculated monthly, we will make weekly withdrawals from your account in an amount we estimate to be that week’s portion of the monthly Continuing Royalty. To the extent necessary, we will reconcile the weekly amounts we have withdrawn with the month’s actual Continuing Royalty due on or before the 5 th day of each	Gross Revenues include all revenues from the franchised Location (whether received in cash, in services, in kind, from barter and/or exchange, on credit, or otherwise) but do not include documented refunds, chargebacks, credits and allowances to customers or sales or use taxes. You owe Continuing Royalties beginning with the first calendar month following the calendar month in which the date you open falls. See Note 1.

Type Of Fee	Amount	Due Date	Remarks
Required Advertising Expenditures	You must spend the total amount described in footnote 3 on contributions to the National Promotion and Protection Fund (see below) and local advertising of the Franchised Business.	calendar month. ² Periodically during each month. On or before January 15 th of each year during the term of the Franchise Agreement (or at other times CBDF specifies), you must submit verification reports and receipts respecting local advertising expenditures.	See footnote 3 for your Required Advertising Expenditures. If you operate 2 contiguous Territories under separate Franchise Agreements, then the total combined households of the Territories will be utilized for measurement of compliance with these requirements. See Note 3.
National Promotion and Protection Fund	National Promotion and Protection Fund Contribution of 2.25% of monthly Gross Revenues. This fee is included in the Required Advertising Expenditures described above and in footnote 3 below.	On or before the 5 th day of each calendar month after the calendar month in which Gross Revenues were received. While the final National Promotion and Protection Fund Contribution is calculated monthly, we will make weekly withdrawals from your account in an amount we estimate to be that week's portion of the monthly National Promotion and Protection Fund Contribution. To the extent necessary, we will reconcile the weekly amounts we have withdrawn with the month's actual National Promotion and Protection Fund Contribution due on or before the 5 th day of each calendar month.	These fees are used for the national promotion, enhancement and protection (including if necessary attorneys' fees) of the Closets By Design system, the trademarks, goodwill and reputation of CBDF. They are not used for new franchise sales expenses. See Item 11. See Note 1 and Note 2.
Software License Fee	\$300 annual lease payment	Payable quarterly promptly upon your receipt of our invoice.	You will be leasing the proprietary Closets By Design management system software ("CBD Manager Software"). See Note 1 and Note 2.
Software Maintenance Fee	\$225 each month	Payable quarterly promptly upon your receipt of our invoice.	You will receive periodic upgrades to the CBD Manager Software Program. See Note 2.
Purchase of Proprietary Products	At our then-current rates (See Note 4 below).	As CBDF or affiliate requires.	If we develop proprietary products, you must purchase such products from us or our affiliates. See Item 8.
Merchandise Cost	As invoiced by us or 3rd party vendor	Upon receiving invoice	We may provide certain merchandising materials to you such as branded memorabilia and other brand-relevant merchandise. We or our third-party vendor will invoice you for reasonable costs for such materials, plus the cost of shipping and insurance. Upon reasonable request, we will furnish you with

Type Of Fee	Amount	Due Date	Remarks
			documentation of those costs.
Late Payment Charge	5% of the delinquent amount plus interest	Immediately upon CBDF's demand for payment	Interest is payable at an annual percentage rate ("APR") of 18% or the maximum APR allowed by law, whichever is less. See Note 1 and Note 2.
AIM Sales Management Portal Fee	Our then-current fee which shall not exceed \$25 per user per month	As CBDF or affiliate requires.	You are required to use our AIM (Account Interaction Manager) sales management portal in connection with the operation of your Business. Currently, we do not charge you a fee for the use of this portal, but we reserve the right to do so. If we elect to impose a fee for your use of our AIM sales management portal, you will be required to pay the fee in Column 2.
Late Reporting Charge	\$250	Immediately upon CBDF's demand for payment	This fee will accrue 7 days after the subject monthly report is due.
Late Quarterly Financial Statement Charge	\$500	Immediately upon CBDF's demand for payment	This fee will accrue 30 days following the date the subject quarterly financial statement is due.
Transfer Fee (if transferee is identified by a third-party broker) ¹	The greater of: 2% of the sales price or \$8,500.	Before completion of transfer.	You must also reimburse us for the reasonable costs we incur in connection with the requested transfer (including, the review, approval and memorialization of same). Additionally, must pay to your third-party broker all fees due in connection with the transfer. There is no charge if your franchise is transferred to a corporation that you control, or to another Principal, or to a family member. You must also sign a General Release in the form of Exhibit 7 to your Franchise Agreement.
Transfer Fee (if transferee is identified by CBDF)	\$8,500, plus the greater of: \$40,000 or 10% of the sales price.	Before completion of transfer.	In addition to paying us the transfer fee, you will also be required to reimburse us for any reasonable costs we incur in connection with your request (including the review, approval and memorialization of same). There is no charge if your franchise is transferred to a corporation that you control, or to another Principal, or to a family member. You must also sign a General Release in the form of Exhibit 7 to your Franchise Agreement. See Note 1.

Type Of Fee	Amount	Due Date	Remarks
Transfer Notification Fee	1% of the sales price	Immediately upon CBDF's demand for payment	This fee is only payable if you engage a broker or prospective buyer without first notifying us of your desire to sell your franchise.
Additional Training	\$1,000 per person per day, plus CBDF's travel, lodging and living expenses	Before completion of initial training.	Initial training is provided to your General Manager at no additional charge. Additional attendees, including replacement General Managers, pay this fee. See Note 1.
Additional On-Site Training and Assistance	\$ 750 for the 1 st day and \$500 for each additional day	At completion of additional on-site assistance.	You may request additional on-site training and assistance after you open your Franchise business, or we may (in our sole discretion) determine that you require additional on-site assistance. If we elect to provide you with additional on-site assistance, whether in response to your request or based on our determination, you must pay us the costs of transportation, food and lodging for each such person we provide in addition to the fee set forth in Column 2. See Note 1.
Annual Conference, Regional Meetings	Up to \$1,500 per attendee.	Upon demand	CBDF may charge you a fee for attending the annual conference or applicable regional meetings.
Leads	Up to 120% of the then-current system average cost per lead.	When you accept the Lead	If CBDF or another Closets By Design franchisee receives any Leads from customers in your Territory, you will receive the first offer for them. If you accept the Lead, you must pay CBDF or the franchisee up to 120% of the then-current system average cost per lead. For Leads generated or obtained using funds collected by the Closets By Design National Promotion and Protection Fund, you must pay the fee to the Fund. See Item 12.
Out of Market Development Fee	25% of the Gross Revenue you obtain from the extra territorial transaction	Promptly after receipt of Gross Revenues	If you sell Closets By Design services or products outside your Territory without CBDF's written consent, then you must pay the other franchisee whose territory you are selling in, or to CBDF (if the territory in which you sell is not franchised), an out of market development fee.

Type Of Fee	Amount	Due Date	Remarks
Replacement Manual	\$5,000	On demand.	If you lose or destroy the Confidential Manual, we may charge you for the loan of a replacement Confidential Manual.
Taxes		Promptly when due	You must pay us all taxes we pay (except for our corporate income taxes) because of (i) services or goods we furnish to you, or (ii) the Initial Franchise Fee, Renewal Fee, Territory Fee, Continuing Royalties, National Promotion and Protection Fund Contributions or Software Maintenance Fees you pay.
Audit ¹	10% interest on under payment ²	Within 30 days after billing.	If our audit finds Gross Revenues were understated by 5% or it takes 8 or more hours to organize your records, you must pay the entire cost of the audit.
Renewal Fee	\$5,000	When you sign the new Franchise Agreement.	You must also sign a General Release in the form of Exhibit 6 to your Franchise Agreement. See Note 1.
Late Fee	5% of amount due	As incurred.	This late fee is payable if you fail to timely pay any amount owed to us or if such amount is not available from withdrawal from your account when due.
Interest	Lesser of: (i) 18% or (ii) the maximum APR permitted by law	As incurred.	Interest will accrue if you fail to timely pay any amount owed to us or if such amount is not available from withdrawal from your account when due.

Notes:

(1) All fees and other payments (except the local advertising portion of your Required Advertising Expenditures, Leads from other franchisees and out of market development fees paid to other franchisees) are uniformly imposed by and are payable to CBDF. All fees and other payments are non-refundable. CBDF may adjust any fixed fee or other non-percentage monetary amount payable by you under the Franchise Agreement or any related Agreements in accordance with the increase in the annual average of the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the United States Department of Labor (“CPI”), or the highest similar future index if these figures become unavailable, over the previous 12 months upon at least 30 days written notice to you.

(2) If payment is late or not available for withdrawal from your account, you must pay a late fee of 5% of the amount due, plus interest at an APR of 18% or the maximum APR allowed by law, whichever is less. Interest begins from the date of underpayment.

(3) Beginning two weeks before the date you must open your franchised Business (the “Advertising Date”) and throughout the term of the Franchise Agreement, you must expend each month on local advertising for your franchised Business and National Promotional and Protection Fund Contributions (see chart above) a sum not less than the greater of: (i) the minimum monthly advertising expenditure

applicable to your franchised Business specified on the table below and on Exhibit 1-A to the Franchise Agreement; (ii) 16% of your previous calendar year's Gross Revenues if the Gross Revenues were less than \$2 million, 14% of your previous calendar year's Gross Revenues if the Gross Revenues were between \$2 million and \$7 million, or 12% of your previous calendar year's Gross Revenues if the Gross Revenues exceeded \$7 million, in each instance divided by 12 or, (iii) an amount equal to your previous calendar year's total advertising expenditures multiplied by 108% and divided by 12, provided, however, that (x) this number will be capped at 23% of your previous calendar year's Gross Revenues, if they were less than or equal to \$3 million, or 20% of your previous calendar year's Gross Revenues if they exceeded \$3 million (as "Gross Revenues" is defined in the Franchise Agreement), and (y) this subparagraph (iii) will not apply if (1) in each month of the previous calendar year your monthly local advertising expenditure exceeded the required minimum monthly advertising expenditure applicable to your franchised business in Exhibit 1-A of the Franchise Agreement by 15% if your Territory has fewer than 500,000 households; by 25% if your Territory has between 500,000 and 1,000,000 households; by 35% if your Territory has between 1,000,001 and 1,500,000 households; or, by 40% if your Territory has 1,500,001 households or more; or, by 35% if your Territory has 1,500,001 households or more and your previous calendar year's gross revenue exceeded \$6 million, and (2) in each month of the succeeding calendar year your monthly local advertising expenditure equals or exceeds the applicable above-specified percentage excess over the minimum monthly local advertising expenditure of your franchised business required by the table below and Exhibit 1-A to the Franchise Agreement.

MINIMUM MONTHLY LOCAL ADVERTISING EXPENDITURE REQUIREMENTS (IN 000'S)

TOTAL HOUSEHOLDS LICENSED TO FRANCHISEE (IN 000'S)

Months Following Advertising Date	180-225	226-300	301-375	376-450	451-530	531-601	611-700	701-800	801-900	901-1000	1001-1150	1151-1300	1301-1500	1501-1700	1701-1900	1901
1-4	10	13	13	13	13	13	14	14	16	16	16	16	16	16	16	16
5-8	13	16	16	16	16	16	16	17	18	18	18	18	20	20	20	20
9-12	16	18	18	20	20	18	18	20	21	21	21	21	22	22	23	23
13-18	17	20	20	21	21	21	21	22	23	23	23	23	25	25	26	26
19-24	18	20	21	22	22	23	23	25	25	25	26	26	27	29	30	31
25-30	20	21	22	22	23	25	26	26	27	27	29	29	30	31	34	35
31-36	20	21	22	23	25	26	27	29	30	31	33	33	33	35	38	39
37-42	21	22	23	23	26	27	29	29	30	31	34	35	36	38	42	44
43-48	21	22	23	25	26	27	29	30	31	33	35	36	39	42	46	48
49-54	22	23	25	26	27	29	30	31	33	34	36	38	42	44	49	52
55-60	22	23	25	26	27	29	30	31	33	35	38	39	43	47	52	55
61-66	22	23	25	26	27	29	30	31	33	35	38	42	43	47	52	55
67-72	23	25	26	27	29	30	31	33	34	38	40	43	44	48	53	57
73-78	25	25	27	29	31	31	34	35	36	39	42	46	47	51	56	59
79-84	25	26	29	30	33	33	35	36	38	42	43	47	48	52	57	61
85-90	26	27	30	31	34	34	36	38	39	43	46	48	49	53	59	64
91-96	26	27	31	33	35	35	38	39	40	46	47	51	51	56	61	65

Months Following Advertising Date	180-225	226-300	301-375	376-450	451-530	531-601	611-700	701-800	801-900	901-1000	1001-1150	1151-1300	1301-1500	1501-1700	1701-1900	1901
97-102	27	29	33	34	36	36	39	40	42	48	49	52	52	57	62	68
103-108	27	30	34	35	38	38	40	42	44	49	52	53	53	59	64	69
109-114	29	30	35	36	39	40	42	43	46	51	53	55	55	60	66	72
115-120	29	31	35	38	40	42	43	44	47	52	56	56	56	61	68	74

If franchisees owning 2/3 of all Closets By Design franchises agree in writing to special assessments for specifically-designated advertising or promotional activities, you must pay us the special assessments, in the amount and by the date approved by the franchisees. However, no special assessment may be merely an increase in the National Promotion and Protection Fund Contribution in name or substance, but rather must be intended and spent for specifically designated advertising and/or promotional activities for a special purpose. These special assessments are in addition to, and do not count towards, the advertising requirement described above. In addition, we may define regional groupings of franchisees for the purposes of making special assessments for designated advertising or promotional activities (including, for example, placing group advertisements in newspapers and magazines). If, from time to time, the franchisees owning 2/3 of all Closets By Design franchises of a regional grouping agree in writing to a special assessment of this type, then you must pay us the approved special assessment or, if we so instruct, you must pay the third-party provider of the advertising or promotional activity. No Closets By Design Business operated by us or any affiliate of ours will be considered a “franchisee” entitled to vote on, agree to or approve any of these activities.

Company-owned Closets By Design Businesses have no obligation to make any contributions to the Closets By Design National Promotion and Protection Fund. In connection with any national advertising, regional advertising or other advertising, promotional campaigns or marketing activities from which Company-owned Businesses will benefit, they will pay their proportionate share based on the distribution of the advertising, promotion or marketing campaign in geographic areas served by the Company-owned Businesses.

(4) Presently we do not require you to purchase any proprietary products from us or our affiliates. However, we reserve the right to require you to purchase from us or our affiliates any proprietary products that we may develop in the future and which may comprise a part of our System.

ITEM 7: ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial Franchise Fee See Note 1	\$20,000	Lump sum; non-refundable	When you sign the Franchise Agreement.	CBDF
Territory Fee See Note 1	Greater of (i) \$18,000 or (ii) \$1,000 for each increment or portion of 10,000 households in the Territory.	Lump sum; non-refundable	When you sign the Franchise Agreement.	CBDF
Market Development Fee See Note 1	Varies	Lump sum; non-refundable	When you sign the Franchise Agreement.	CBDF

Type of Expenditure	Amount	Method of payment	When due	To whom payment is to be made
Travel/Living Expenses for Initial Training See Note 2	\$2,500 to \$3,500	As Incurred	During training	Travel and Lodging Vendors
Furniture, Fixtures and Equipment (including computer) See Note 3	\$35,000 to \$250,000	Lump sum or financed by outside vendor	Before opening	Approved Suppliers or Vendors
Grand Opening Advertising – 1 st 3 months	\$30,000 to \$45,000	Variable	Before opening	Advertisers
Inventory and Supplies	\$10,000 to \$25,000	Lump sum; usually non-refundable	Before opening	Approved suppliers
Deposits for Vehicles See Note 4	\$1,000 to \$4,000	Lump Sum	Before opening	Third Party
Interior/Exterior Signs	\$500 to \$1,000	Lump sum; non-refundable	Before opening	Approved suppliers
Licenses and Permits	\$500 to \$1,500	Lump sum	Before opening	Governmental agencies
Rent/Rental Security Deposits	\$2,000 to \$12,000	Lump sum	As agreed with Lessor	Lessor
Retail Shop Build-Outs and Improvements	\$5,000 to \$30,000	Lump sum	As agreed with Lessor	Lessor or Third Parties
Business Insurance See Note 5	\$1,500 to \$2,000	Lump sum	As required by insurance company policy	Insurance company
Legal/Accounting	\$1,000 to \$3,000	Lump sum	As incurred	Attorneys/Accountants
Additional Funds – 1 st 3 months See Note 6	\$25,000 to \$75,000	As incurred	As incurred	See below
TOTALS See Note 7	\$152,000 to \$507,000			

Notes:

(1) Fees received by CBDF under the Franchise Agreement are not refundable. With the exception of providing financing of the Territory Fee (as described in more detail in Item 10 below) and the Marketing Fee, CBDF does not offer any financing of any fees. To be eligible to sign the Franchise Agreement, you must provide us with reasonable proof of your financial ability to make the initial investment described above and you must authorize us to conduct a credit check to confirm your financial ability to purchase and develop the Location.

We have assumed, for purposes of calculating the total estimated initial investment in this table, a Territory with 100,000 households on the low end of the range (which requires the payment of an \$18,000 Territory Fee) and a Territory with 350,000 households on the high

end of the range (which requires the payment of a \$35,000 Territory Fee). Although this rarely happens, your Territory may contain fewer than 100,000 households or more than 350,000 households.

If you are purchasing an unoccupied developed market area, you may be required to pay a Market Development Fee in addition to the Initial Franchise Fee and Territory Fee. The Market Development Fee will vary drastically based on, among other things, (i) the size of the market area and (ii) the extent of development of the subject market area. The amount of the Market Development Fee and the terms upon which the Market Development Fee is payable will be individually negotiated. CBDF may permit you to finance a portion of the Market Development Fee on a case-by-case basis. Last year, we imposed Market Development Fees ranging from \$0 - \$200,000. However, the Market Development Fee that you and we negotiate may exceed the amount we charged last year.

(2) There is no separate fee for the Closets By Design training program for your General Manager. The costs for the initial training program are a part of the Initial Franchise Fee but you must pay all travel and lodging expenses of trainees. Additional trainees pay CBDF up to \$1,000 per person per day for training.

(3) It is your responsibility to lease, maintain, furnish, decorate and equip your Location. You must have a showroom at your Location and at other sites in your territory as reasonably determined by CBDF.

(4) You will be required to purchase or lease a vehicle to transport the tools, equipment, supplies and materials that you may need for closet installations. We suggest the Fort Transit Van-E250 (with 148" wheel base/hightop) or a Dodge Sprinter 2,500 Cargo Van. However, you are free to choose whatever vehicle you deem appropriate for installations and whether you will purchase or lease said vehicle.

(5) CBDF requires you to carry appropriate workers' compensation insurance in the minimum limits prescribed by law and comprehensive general liability coverage of at least \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a reputable insurer. You must provide CBDF with evidence of insurance and name CBDF as an additional insured under your liability policy. You must also carry Fire and Extended Coverage Insurance on your Closets By Design location, Business Interruption Insurance and motor vehicle liability coverage (see section 9.1 A. of the Franchise Agreement).

(6) Although CBDF does not require minimum funds for you to start your business, there are some expenses you will incur when you begin your franchise operations, such as inventory, supplies and employees' salaries. It is always a good idea to have some cash reserves available to cover initial operating expenses.

(7) This estimates your initial start-up expenses. CBDF relied on over 40 years of experience of our President in the space organizing business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We strongly recommend that you use these categories and estimates as a guide to develop your own business plan and budget and investigate specific costs in your area.

ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Required Purchases

Any materials containing the Closets By Design marks must be obtained only from designated vendors or from suppliers we have approved. (Approved suppliers are listed in the

Confidential Operations Manual.) Presently, we do not require you to purchase any proprietary products from us or our affiliates. However, we reserve the right to require you to purchase from us or our affiliates any proprietary products that we may develop in the future and which may comprise a part of our System.

Required and Approved Suppliers

To secure system wide national advertising discounts, CBDF re-sells certain advertising services to its franchisees. Except for the foregoing, CBDF does not sell or lease any goods, services, supplies or equipment related to establishing operating the franchised business. You will receive a list of approved suppliers at initial training and later updates to this list by e-mail.

If CBDF enters into or arranges for any system wide supply contract, then immediately upon notification of this, you and all Closets By Design franchisees must purchase the specified products and/or services only from the specified vendor, unless you can reasonably demonstrate that the prices under any system wide supply contract are more than 10% higher than the market average for the product or service of equal or greater quality, durability and availability as under the system wide supply contract supplied by manufacturers or vendors (as applicable) of equal or greater reputation for reliability, integrity and longevity as the manufacturer or vendor under the system wide supply contract. If at the time of CBDF's notification you are a party to a non-terminable pre-existing supply contract with another vendor for the product or service in question, then your obligation to purchase from CBDF's designated supplier will not begin until the scheduled expiration (or earlier termination) of your pre-existing agreement.

In addition, CBDF reserves the right to require you to participate in any consumer financing programs it specifies, whether in the Confidential Operations Manual or otherwise. In connection with such participation, you may be required to enter into a contract with CBDF's designated third party financing supplier, in the form and upon the conditions such third-party supplier requires, and pay certain fees associated therewith.

There are no suppliers in which any of our officers owns an interest.

Approval of Alternative Suppliers

We have approved other suppliers of other components of Organizers and other items you will need to operate your Franchise business. These suppliers are listed in the Confidential Operations Manual. We approve suppliers after careful review of the quality of the products they provide to CBDF and our franchisees. CBDF formulates standards and specifications for products from approved suppliers based on the relevant business experience of our executive officers. These standards and specifications, which we may modify from time to time, are provided to potential suppliers when we begin the supplier review process and to franchisees if requested in writing. If you would like us to consider a new supplier, you must have the supplier provide us with samples of its work. If the supplier meets our specifications for quality control and accurate reproduction of our Service Mark, we will approve it as an additional supplier by written notification of our approval to the supplier and you. A review of a proposed new supplier typically is completed within 30 days and we will notify you of our decision within 5 business days after we complete our review. No fees are payable to CBDF for this review. CBDF will not unreasonably withhold consent of a proposed, new supplier. If an approved supplier no longer meets our standards, CBDF may revoke its status as an approved supplier by written notification to the supplier and notification to the system by e-mail and modification to the Confidential Operations Manual.

Computer and Point of Sale System

You must procure and install the Computer System that we require. We will lease to you our proprietary CBD Manager software program (“CBD Manager”), which you must install on your Computer System.

Insurance

You must purchase and maintain the following insurance:

1. Broad form comprehensive general liability coverage and broad form contractual liability coverage satisfactory to us of at least \$1,000,000 per occurrence and \$3,000,000 aggregate. This insurance may not have a deductible or self-insured retention of over \$5,000.
2. Fire and Extended Coverage Insurance on your Closets By Design Location and property in an amount adequate to replace them in case of an insured loss.
3. Business Interruption Insurance in sufficient amounts to cover, for a period of four months following the interruption of your Business, the rental of your Closets By Design Location; Continuing Royalty, National Fund Contributions and Software Maintenance Fees which would have been due were it not for the interruption (calculated on the basis of the average monthly amount of each such payment paid or payable by your Business over the twelve months preceding the interruption of your Business but provided that the Continuing Royalty component of this sum need not exceed \$100,000); maintenance of competent personnel; utilities; any and all debt obligations of your Business; and, lease payments for vehicles, machinery and equipment utilized by your Business. Your obligation to pay Continuing Royalties, National Fund Contributions and Software Maintenance Fees in the amounts specified in the preceding sentence will not be suspended or relieved by the occurrence of any event of the type set forth in Section 19.01 (“Unavoidable Delay or Failure to Perform [Force Majeure]”) of the Franchise Agreement.
4. Motor vehicle liability coverage, including coverage of owned, non-owned and hired vehicles, with minimum limits of liability in the greater of (a) the amount required by all applicable state and federal laws, or (b) \$1,000,000 for each person killed or injured, and, subject to that limit for each person, a total minimum liability of \$2,000,000 for any number of persons injured or killed in one accident, and a minimum limit of \$300,000 for injury, destruction or loss of use of property of third persons as the result of any one accident.
5. Workers’ compensation and employer’s liability insurance (in statutory amounts), unemployment insurance and state disability insurance (as required by governing law), for your employees.
6. In connection with any construction, refurbishment or remodeling of the Closets By Design Location, builders’ and/or contractor’s insurance (as applicable) and performance and completion bonds in forms and amounts acceptable to us.
7. Insurance coverage of such types, nature and scope sufficient to satisfy your indemnification obligations (including, without limitation, insurance coverage

to indemnify us from any claims alleging your violation of federal, state or local labor and/or wage and hour laws, rules or regulations).

Revenue from Franchisee Purchases

We and/or our affiliates may derive revenue - - in the form of promotional allowances, volume discounts, commissions, other discounts, performance payments, signing bonuses, rebates, marketing and advertising allowances, free products, and other economic benefits and payments - - from suppliers that we designate, approve, or recommend for some or all Closets By Design Locations on account of those suppliers' prospective or actual dealings with your Location and other Closets By Design Locations. That revenue may or may not be related to services we or our affiliates perform. All amounts received from suppliers, whether or not based on your or other franchisees' purchases from those suppliers, will be our and our affiliates' exclusive property, which we and our affiliates may retain and use without restriction for any purposes we and our affiliates deem appropriate. Any products or services that we or our affiliates sell you directly may be sold to you at prices exceeding our and their costs.

In the fiscal year ended December 31, 2022, CBDF had total gross revenues of \$85,071,317.66. In the fiscal year ended December 31, 2022, CBDF (i) generated \$335,020.00 in revenue from required purchases made by franchisees (representing 0.394% of CBDF's total revenues) and (ii) received \$367,161.91 in rebates as a result of franchisee purchases (representing 0.432% of CBDF's total revenues). The amount in rebates that we received is principally attributable to a systemwide percentage rebate (ranging from 1% - 5%) based on franchisee purchases of products from certain approved suppliers.

We anticipate that the cost of our proprietary closet and home/office organizational materials and other related products that you must purchase from CBDF or approved suppliers on an ongoing basis will be approximately 15% to 30% of your monthly investment. Your purchases from CBDF or approved suppliers to establish your business will range from 57.9% to 60.3% of your total investment.

Cooperatives

CBDF is not presently involved in any purchasing or distribution cooperatives.

Negotiated Prices

CBDF negotiates with suppliers for beneficial pricing for franchisees and company owned stores. In the future, we will negotiate more with suppliers as more franchisees join the Closets By Design system.

Material Benefits

CBDF does not provide material benefits to a franchisee based on a franchisee's purchase of specific products or services or use of specific suppliers.

ITEM 9: FRANCHISEE'S OBLIGATIONS

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

	OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN DISCLOSURE DOCUMENT
a.	Site selection and acquisition/lease	6.01, 6.02	10, 11, 12
b.	Pre-opening	7.02	7, 8
c.	Site development and other pre-opening requirements	6.01, 6.02, 7.02, 8.01	6, 7, 11
d.	Initial and ongoing training	7.02 – 7.07	11
e.	Opening	1.01, 5.02, 5.03, 5.05, 5.07, 7.02, 7.03, 8.06 B.	5, 6, 11
f.	Fees	3.03, 3.04, 4.04, 4.05, 5.01-5.10, 6.01, 6.03, 7.01, 7.02, 7.03, 7.05, 7.06, 8.04, 9.01, 10.04, 10.06, 14.05.	5, 6
g.	Compliance with standards and policies/Operating Manual	7.01, 8.01-8.19, 9.01, 9.04, 10.01-10.06, 12.01	11
h.	Trademarks and proprietary information	1.02, 2.02, 12.01, 15.01-15.08, Exhibit 2	13, 14
i.	Restrictions on products/services requirements	3.02, 3.03, 3.04, 3.05, 8.03, 8.04, 8.06, 8.07, 8.08, 17.08	8
j.	Warranty and customer service requirements	3.03, 8.06, 17.08, 18.01	11, 15
k.	Territorial development and sales quotas	3.01, 3.04	12
l.	Ongoing product/service purchases	5.04, 8.06	8
m.	Maintenance, appearance and remodeling requirements	5.04, 8.03, 8.07, 9.01	11
n.	Insurance	9.01-9.06	7, 8, 11
o.	Advertising	10.01-10.06	6, 11
p.	Indemnification	8.10, 9.01, 14.05 C.	14
q.	Owner's participation/management/staffing	8.05	11, 15
r.	Records/reports	11.01-11.02	6
s.	Inspections/audits	8.11, 11.02	6, 11
t.	Transfer	14.01-14.09	17
u.	Renewal	4.02-4.07	17
v.	Post-termination obligations	4.04, 17.08, 18.01	17
w.	Non-competition covenants	12.01, 13.01-13.06, 14.05, 18.01, Exhibit 4	17

	OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN DISCLOSURE DOCUMENT
x.	Dispute resolution	13.04, 22.02, 23.01-23.04	17
y.	Compliance with U.S. anti-terrorism and other U.S. federal laws	22.10	None
z.	Guarantee	22.09, Exhibit 5	15

ITEM 10: FINANCING

Source of Financing	From Us
Amount Financed¹	Territory Fee (We do not provide financing for any other amount). Up to the amount of \$40,000.
Down Payment	10% of the amount financed.
Term¹	12 months.
Interest Rate¹	9.50%
Monthly Payment¹	Principal plus interest for the term com-pounded.
Prepay Penalty	None
Security Required¹	Promissory Note or Personal Guaranty by franchisee's owners and their spouses.
Liability upon default¹	Loss of franchise; franchisor may declare entire amount due immediately.
Loss of Legal Rights upon Default¹	Waive presentment, demand, protest, notice, or protest or dishonor.

Explanatory Notes.

If you (i) are granted a Territory containing from 300,000 to 350,000 households and (ii) meet CBDF's credit standards, CBDF will finance up to the amount by which your Territory Fee exceeds \$40,000. The term of the financing is 12 months and the first payment is due 30 days after you sign the Promissory Note, a form of which is attached as Exhibit I. During each month of the term, you will pay principal and interest at 9.50% compounded. We do not finance any other fee or amount. As security, we require that certain individuals involved with the franchise sign a Guaranty, agreeing to be personally bound. The Promissory Note can be prepaid at any time without penalty. If you do not pay on time, we can call the loan and demand immediate payment of the full outstanding balance without presentment, demand, protest, notice of protest or dishonor, all of which you expressly waive. We can also terminate the Franchise Agreement if you fail to pay as required under the Promissory Note. Should the indebtedness evidenced by the Promissory Note be collected by action at law, or in bankruptcy, receivership or other court proceedings, or should the Promissory Note be placed in the hands of attorneys for collection after default, you shall be required to pay, upon demand, in addition to the principal and interest due, courts costs, attorneys' fees and other collection charges.

If you are purchasing an unoccupied developed market area, you may be required to pay Market Development Fee. The amount of the Market Development Fee and the terms upon which that fee is payable (including whether we will offer you the opportunity to finance the Market Development Fee) are negotiable. If you are required to pay a Market Development Fee, we may permit you to finance a portion of the Market Development Fee at 9.50% interest.

Other than the above, we do not offer direct or indirect financing. We do not guarantee your note, lease or obligation. We and our affiliates have no past practice or future intent of

selling, assigning or discounting franchisees' financing arrangements to a third party. We and our affiliates do not currently receive any direct or indirect payments from any person for the placement of financing with the lender.

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

Except as listed below, CBDF is not required to provide you with any assistance.

Our Pre-Opening Obligations and Assistance:

Before you open your business, CBDF will:

(1) Train you (there is no fee for training your General Manager and 1 other person), using the following training schedule (see section 7.02 of the Franchise Agreement):

TRAINING PROGRAM

SUBJECT	HRS OF CLASSROOM TRAINING	HRS OF ON THE JOB TRAINING	LOCATION
Administration of the Closets By Design System	8	0	Garden Grove, California, other designated training center or virtually (if we deem necessary)
Marketing	8	0	Garden Grove, California, other designated training center or virtually (if we deem necessary)
Basic Operations	16	16	Garden Grove, California, other designated training center or virtually (if we deem necessary)
Sales and Sales Management	16	0	Garden Grove, California, other designated training center or virtually (if we deem necessary)
Design	16	0	Garden Grove, California, other designated training center or virtually (if we deem necessary)
Production and Shop Training	0	40	Garden Grove, California, other designated training center or virtually (if we deem necessary)

We hold our initial training program as needed based on new franchises joining the Closets By Design System. Our President determines the actual time each day's initial training begins. The instructional material will consist of appropriate handouts and information directly from the Confidential Operations Manual. Every instructor has between 5 and 25 years of experience with CBDF or its affiliates and in the closet and cabinet business.

CBDF does not charge for this training or service for your General Manager (each additional trainee must pay CBDF \$1,000 per person per day for training), but you are responsible for all travel, lodging and other expenses of your trainees. Initial training is provided within 30 days before you open the Location. If CBDF representatives train you at your Location, you must pay their travel and living expenses. CBDF may provide you with proprietary information and related materials for use in training your staff. These materials are the sole property of

CBDF and must be returned to us when you are finished with them. All classroom training occurs in Garden Grove, California, or another training center designated by CBDF.

The successful completion of initial training by your General Manager to CBDF's satisfaction is a condition to your opening of a Location to the public. The failure of your General Manager to complete the training in a manner satisfactory to CBDF may result in the termination of your Franchise Agreement; provided, that if your General Manager fails to complete initial training satisfactorily, you will have the option of sending another proposed General Manager approved by us to initial training in place of the General Manager who did not complete training. In addition, if your General Manager or any other attendee you send to the Initial Franchise Training fails to successfully complete our Initial Franchise Training, then that person may re-enroll in another scheduled Initial Franchise Training. CBDF may charge you \$1,000 per day for this additional training. Any new or replacement General Manager later hired by you must also complete initial training, and CBDF may charge you \$1,000 per day for this training.

(2) Lend you 1 copy of the Confidential Operations Manual and other applicable manuals during initial training (section 7.01 of the Franchise Agreement). The Confidential Operations Manual contains 201 pages, and a copy of its Table of Contents is attached to this disclosure document as Exhibit G.

(3) In addition to Initial Franchise Training, we will provide a trainer at your Location for 1 to 2 weeks (at our option) of on-site training around the time of the date your Business opens. We will determine the exact timing of this assistance (section 7.03 of the Franchise Agreement).

(4) Provide you support (in person or by telephone, at our discretion) with installation of the CBD Manager Database and client applications on your Computer System.

(5) Consult with you, to the extent we consider necessary, on the construction, equipping, furnishing and decoration of the Location. It will, however, be your sole responsibility to diligently design, construct, equip, furnish, decorate ready and open the Location for business. (Section 6.05 of the Franchise Agreement).

Our Post- Opening Obligations and Assistance

During the operation of the franchised business, CBDF:

(1) Will provide you access to an adequate supply of Closets By Design proprietary closet materials, home/office organizational materials and other Closets By Design proprietary products that you must purchase from our approved suppliers. Also, CBDF will continue to develop new Organizers. (See section 8.06 C. of the Franchise Agreement; also see Item 8 of this disclosure document for more proprietary product information.)

(2) Will expend National Promotion and Protection Funds collected from all Closets By Design franchisees for the national promotion, enhancement and protection of the Closets By Design system and the Closets By Design trademarks (the "Marks"), goodwill and reputation of CBDF (section 3.03 of the Franchise Agreement). Franchisees' contribution to the National Promotion and Protection Fund is 2.25% of monthly Gross Revenues (see Item 6 and footnote 3 above). CBDF uses the National Promotion and Protection Fund for preparation, production and distribution of Closets By Design advertising (including print media pieces, brochures and collateral materials), press releases and other point of sale materials. CBDF

may also use the National Promotion and Protection Fund to engage advertising agencies, public relations firms, speakers and celebrity endorsers of Closets By Design products. (See section 10.04 of the Franchise Agreement.)

In addition, CBDF may use the National Promotion and Protection Fund (i) to supplement regional advertising efforts, including areas with few or no Franchises, (ii) to complete faulty or abandoned work of Closets By Design franchisees, (iii) to defend (including payment of related attorneys' fees), prosecute or settle legal, arbitral or administrative actions by or against CBDF or Closets By Design franchisees if the action or proceeding relates to, contests, challenges or involves CBDF's ownership of the Proprietary Marks (see limitation below), CBDF's or your right to use and display the Proprietary Marks, the goodwill associated with the Proprietary Marks and/or any infringement of the Proprietary Marks, (including, any action or proceeding which is likely to injure the reputation or goodwill of the Closets By Design franchise system or the Marks, (iv) to finance litigation to protect the Marks, (v) to reimburse CBDF for organizing and conducting national conferences and other special events and (vi) to lend money to authorized Closets By Design regional advertising funds. CBDF may make Fund expenditures in connection with legal, arbitral or administrative actions or proceedings CBDF commences against, or are commenced against CBDF by, terminated, expired or former CBD franchisees, but CBDF may not make Fund expenditures in connection with actions or proceedings CBDF commences against, or are commenced against CBDF by, any then-current CBD franchisee.

You and all other Closets By Design franchisees contribute to the National Promotion and Protection Fund based on monthly Gross Revenues (see section 5.05 of the Franchise Agreement and Item 6 of this disclosure document). Company-owned Closets By Design Businesses are not required to make any contributions to the Closets By Design National Promotion and Protection Fund. In connection with any national or regional print advertising engaged in by the Fund from which Company-owned Businesses will benefit, the Businesses will pay their proportionate share based on the distribution of the print advertising in geographic areas served by the Company-owned Businesses. Further, in connection with any photographic media paid for by the Fund for use in Closets By Design catalogues or sales aid materials, CBDF will reimburse the Fund its proportional share of the expense, "proportional share" defined in this instance as the percentage of total system wide CBD gross revenues (that is, the aggregate gross revenues of all Closets By Design Businesses operated by CBDF, its affiliates and its franchisees) attributable to Closets By Design Businesses which CBDF and/or its affiliates operate.

CBDF will determine the cost, form or media, content, format, production and timing, including regional or local concentration and seasonal exposure, location and all other matters involving advertising, public relations and promotional campaigns (see section 10.04 of the Franchise Agreement). We intend to use the following advertising media: direct mail, print media and electronic media where appropriate and cost effective. The media coverage may be local, regional or national. We will be using in-house advertising personnel, but we also intend to engage the services of advertising and public relations firms to assist in our advertising program. We may but are not obligated to spend any National Promotion and Protection Funds in the territory where you are located.

CBDF has the right to use any media, create any programs and allocate advertising funds to any regions or localities in any manner it considers appropriate in its business judgment. The allocation may include rebates to individual franchisees of some or all of their National Promotion and Protection Fund contributions for local advertising expenditures if, in its

judgment, its national or regional advertising program or campaign cannot effectively advertise or promote in certain regions or communities. If CBDF determines that the total national Promotion and Protection Fund contributions collected from all Closets By Design franchisees and company-owned Closets By Design Businesses is insufficient to sustain a meaningful regional or national advertising campaign, CBDF may rebate all or a portion of the Fund contributions to franchisees and our (or our affiliates') company-owned Closets By Design Businesses on a pro rata basis. Franchisees must expend any rebate on the types of local advertising and media that CBDF determines. All rebate advertising expenditures must be documented to us in a monthly rebate advertising expenditure report form which we will furnish in our Manual or otherwise.

CBDF administers the National Promotion and Protection Fund and receives a fee of 15% of the annual aggregate National Promotion and Protection Funds for doing so. National Promotion and Protection Funds are deposited into our general operating account and no interest is imputed for your benefit. CBDF is not presently involved in any advertising cooperatives. However, the Franchise Agreement gives us the power to require advertising cooperatives to be formed, changed, dissolved or merged.

You must make the Required Advertising Expenditures described in Item 6, footnote 3.

On a national or regional basis, CBDF may impose an additional assessment on all Closets By Design Franchises for special advertising or promotional activities if Franchises owning 2/3 of all franchised Locations agree to this additional assessment, confirmed in writing by each Franchise (see Item 6, footnote 3 and section 10.06(F) of the Franchise Agreement). These special assessments are in addition to, and do not count towards, the Required Advertising Expenditures described in Item 6, footnote 3. You may develop advertising materials for your own use, at your own cost. But we must approve the advertising materials in advance and in writing. You may not, without our prior written consent, advertise in any medium we have not previously approved in writing or use any advertising outlet through which we maintain a system-wide advertising program (e.g. Val Pak, Money Mailer and other outlets we identify from time to time). Additionally, you may not, without our prior written consent, engage any third-party marketing firm or consultant or disclose our advertising strategies or data to anyone under any circumstance. If we do not expend all National Promotion and Protection Funds collected for one year, the remaining monies are retained for future years. We are not absolutely required to spend any National Promotion and Protection Funds in your Territory; however, National Promotion and Protection Funds are spent to benefit all Franchises, including you. National Promotion and Protection Funds are used to promote Organizers sold by you and protect the Marks and the Closets By Design System. They are not used to sell additional Franchises. While the National Promotion and Protection Fund will not be used for any activity whose sole purpose is the sale of franchises, the design and maintenance of our website, as well as the creation and placement of advertising and marketing (whether via print, electronic, radio, etc.), for which Fund monies may be used, may include information and solicitations for prospective franchisees and public relations and community involvement activities which may result in greater awareness of the Closets By Design brand and the franchise opportunity.

Other than the National Promotion and Protection Funds collected from all Closets By Design franchisees that CBDF will expend on the national promotion, enhancement and protection of the Closets By Design system, the Marks and CBDF's goodwill and reputation, CBDF is not required to spend any amount on advertising in the franchisee's area or territory.

(3) Will provide you (when you send us your request for this accounting in writing) with an unaudited statement describing the annual receipts and expenditures of National Promotion and Protection Funds during the previous calendar year on or before each March 31 (section 10.04 C. of the Franchise Agreement).

In 2022, Promotion and Protection Funds in the amount of \$4,374,001 were spent as follows: 1.372% on media production, 30.863% on advertising placement, 40.266% on administrative expenses, 10.639% on conference expenses, 3.418% on brand protection legal expenses, and 13.442% on other expenses.

Currently CBDF does not have an advisory council specifically devoted to advertising. However, the Closets by Design Franchise Advisory Council (which was formed in 2006) may advise CBDF on various matters concerning the operation of the system, including advertising. It consists of five franchisee members, three of whom are chosen by Closet by Design franchisees and two of whom are appointed by CBDF.

(4) We have entered into system wide national advertising contracts with certain vendors to provide advertising and advertising materials to franchisees at a discount. While you are not obligated to use these vendors for your advertising materials, if you wish to utilize the services of our approved suppliers then we will resell these advertising services to you.

(5) Will be available by phone and email during CBDF's normal business hours at no additional charge for guidance concerning the operation and management of the Franchise (section 7.04 of the Franchise Agreement).

(6) Will periodically offer follow-up assistance in the day-to-day operations of your Franchise or to discuss any operational problems. If (i) we, in our sole discretion, determine that you require additional on-site assistance or (ii) you request that we send someone to your Location to assist in your business operation, and you have given us a reasonable amount of notice, we will use our best efforts to assist you. If we provide such additional on-site assistance to you, then you must pay us \$750 for the 1st day we provide such additional on-site assistance and \$500 for each additional day thereafter (section 7.03 of the Franchise Agreement).

We must review and consent to the Location of your Franchise (we will not unreasonably withhold approval). We do not currently own sites for leasing to franchisees. We consider the following factors in consenting to your site: potential competition within the territory or immediate vicinity of the Location, the general location and neighborhood where it would be situated, traffic patterns, availability of parking, physical characteristics of existing building, availability of necessary space for the Franchise and lease terms. Promptly following our written consent to your proposed Closets By Design Location, you must deliver to us a copy of any proposed lease or sublease for the Location and any proposed related documents. We will review and consent to any lease, sublease or other rental agreement for the Closets By Design Location and if we do not communicate our consent to or disapproval of a proposed lease to you within 10 business days following our receipt of it, the Lease is considered approved (section 6.02 of the Franchise Agreement). We may agree with your landlord to have a right to assume your lease if you default under its terms. You must find and lease a site for your Location acceptable to us within 90 days of your signing the Franchise Agreement and begin operations within 120 days after signing the Franchise Agreement or the Franchise Agreement may be terminated (we are not obligated to refund any part of your Initial Franchise Fee or Territory Fee). (See Item 5 of this disclosure document and section 6.01 B. of the Franchise Agreement).

CBDF may make available to you optional staff training courses, seminars, conferences, or other programs at a location suitable to both you and CBDF. CBDF does not currently charge an attendance fee, but we reserve the right to do so. You will also be required to pay all travel and lodging expenses (sections 7.05 and 7.07 of the Franchise Agreement).

CBDF intends to hold a mandatory annual conference which at least one of your Principals must attend, to discuss Organizers, sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. CBDF reserves the right to charge a conference attendance fee (not to exceed \$1,500 per attendee), and you will be required to pay all travel and living expenses of your attendees. This required conference will be held near our Garden Grove, California headquarters or at other locations we designate (section 7.06 of the Franchise Agreement). The annual conference is expected to be approximately 2 days in duration. Instead of an annual conference, we may hold a series of regional meetings. At least one of your Principals must attend any regional meeting CBDF holds for your area. We may charge a fee up to \$1,500 per attendee for the meeting.

We may, from time to time provide to you (or have our designated 3rd-party vendor provide to you) certain merchandising materials identifying the System and to support national promotions, such as branded memorabilia and other brand-relevant merchandise. You will be required to pay the cost for these materials, including shipping and insurance.

You must purchase a suitable computer system to operate the CBD Manager Software (that we refer to as your "Computer System"). Your Computer System will consist of a minimum of two computers. One computer will host the CBD Manager database. This computer will be referred to as the "Host" or "Server" for the CBD Manager Software. You will also need one or more computers in your office for use of the CBD Manager Software in your Location's day-to-day operations. We refer to this computer(s) as the "Client" computer(s). In addition to purchasing a Host/Server and Client computer, you may need to purchase other computers for the operation of other systems in your office that are not related to the CBD Manager Software. Your Host/Server and Client computers must be networked with the IT equipment that we require using a wired network plus a wireless network for a mobile computer and other wireless peripheral equipment. High speed internet access network for your entire office will also be required, as well as a printer to print reports and forms from the CBD Manager Software.

For the "Host" or Server" computer, we require the following configuration and related peripheral equipment:

- (1) Multicore Intel processor (4 cores or better) with at least 16GB of RAM, Gigabit network card, and 21" (or larger) monitor – the Gigabit network card must be "hard wired" to your office's local network;
- (2) Microsoft Windows operating system (Windows 10 Pro 64bit, Windows 11 Pro 64bit, Windows 2019 Server standard 64bit or Windows 2022 Server standard 64bit only versions are required);
- (3) Battery power backup;
- (4) TeamViewer for remote control and management;
- (5) Wired keyboard and mouse only;
- (6) TCP/IP version 4 network stack; and
- (7) High speed internet access (any internet service provider is acceptable) via the local

network (LAN).

Your “Host” or “Server” computer must be completely dedicated to hosting the CBD Manager Software. You may not install any other software or service on your “Host” or “Server” computer. Your “Host” or “Server” computer cannot be connected to a cloud service and it cannot be a virtual machine.

For your “Client” computer(s), we require the following configuration and related peripheral equipment:

- (1) Desktop or a laptop computer
- (2) Multicore Intel processor (4 cores or better) with at least 8GB of RAM and 21” (or larger) monitor;
- (3) Microsoft Windows operating system (Windows 10 or Windows 11 (any edition) 64bit);
- (4) Microsoft Office suite (any current version Office 365, Office 2019 or Office 2022);
- (5) Printer or a Multifunction Printer/Fax/Copier/Scanner dedicated or shared;
- (6) Local network connectivity to the “Host” or “Server” computer;
- (7) TCP/IP version 4 network stack; and
- (8) High speed internet access (any internet service provider is acceptable) via the local network (LAN).

The cost of this Computer System ranges from \$1,000 to \$2,000.

You must install our proprietary CBD Manager software program, which, we will lease to you for \$300 per year (you must also pay a monthly software maintenance fee of \$225 periodic upgrades). We will provide you with proprietary accounting and reporting manuals and related materials (and related assistance, support and upgrades, at no additional cost to you) designed for use on your Computer System to help you schedule customer, order products and supplies and otherwise manage your Closets By Design business (see section 8.07 of the Franchise Agreement). CBDF will also support you with (i) moving the CBD Manager database server component to another computer on your network once that computer is connected and properly configured to use the network, (ii) your use of any of the features of the CBD Manager, and (iii) fixing any software bugs that may be discovered while you are using the CBD Manager. CBDF will not have independent access to your principal business computer and/or computer system; however, it has the right to: require you to transmit electronically on a daily basis data relating to the Franchised Business conducted at or from your Location; retrieve from your computer system all information that it considers necessary, desirable or appropriate at the times it designates; and require you, at any time, upon notice, to grant it access to your business computer and computer systems (see sections 5.05 and 8.07 of the Franchise Agreement). You may purchase the computer equipment from any reputable vendor and you are solely responsible for the support, ongoing maintenance, repairs or upgrades to your computer system. You do not need cash registers or point of sale systems to operate your Business.

You must install the AIM (Account Interaction Manager) sales management portal (the “AIM Sales Management Portal”) to be used in connection with the operation of your Business. The AIM Sales Management Portal is a web-based portal that designers will use to communicate the status of every client interaction with your Location and CBD Manager. The AIM Sales Management Portal is intended to ensure that all appointments are delivered

to designers at a designated time, and all outcomes are reported back to our Sales Management team in a timely fashion. Currently, we do not charge you a fee for the use of the AIM Sales Management Portal, but we reserve the right to do so but we reserve the right to do so. If we elect to impose a fee for your use of the AIM Sales Management Portal, you will be required to pay our then-current fee, you will be required to pay our then-current fee not to exceed \$25 per user per month.

You must, at your expense, keep your Computer in good maintenance and repair. We may mandate that you add memory, ports, accessories, peripheral equipment and additional, new or substitute software. If we run tests and determine that it will prove economically or systemically beneficial to you and to us, you must install at your own expense the additions, modifications, substitutions and/or replacements to your Computer hardware, software, telephone and power lines and other computer facilities as we direct, on the dates and within the times we specify in our Confidential Manuals or otherwise. In addition, we may require you, at your expense, to purchase, install and utilize in your Closets By Design Business and at your Location such hereafter developed modes of computerization, communication, media and/or interfaces as we, in our sole business judgment, determine to incorporate into the System. You will be required to do so at such time and in such manner as we designate, in our Confidential Manuals or other written notices.

CBDF alone may establish, maintain, modify or discontinue all internet, worldwide web and electronic commerce activities pertaining to the System, including through the use of a page or profile on a social media website such as Facebook, Instagram, LinkedIn or Twitter. Franchisees and their employees are not allowed to establish their own profiles on any social media page reflecting the Closets by Design brand, nor are they allowed to establish any Closets by Design related web page. CBDF will provide you with a “click through” subpage on any general Closets By Design web site it maintains. If CBDF establishes one or more websites or other modes of electronic commerce and if it provides a “click through” subpage at each such website for the promotion of your Closets By Design Business, you must provide CBDF with updated copy, photographs and news stories about your Closets By Design Business suitable for posting on your “click through” subpage, the content, frequency and procedure of which will be specified in our Confidential Manuals. Any websites or other modes of electric commerce that CBDF establishes or maintains may – in addition to advertising and promoting the programs, products, or services available at Closets By design business – also be devoted in part to offering Closets By Design business franchises for sale and be utilized by CBDF to exploit the electronic commerce rights which it alone reserves. You may not, without our prior written consent, establish or maintain any other websites or social media page; otherwise maintain a presence or advertise on the internet, through social media or in any other mode of electronic commerce in connection with your Closets By Design Business, including through the use of a page or profile on a social media website such as Facebook, Instagram, LinkedIn or Twitter; establish a link to any website CBDF establishes at or from any other website or page; or, at any time establish any other website, social media or electronic commerce presence which in whole or in part incorporates the “Closets By Design” name or any name confusingly similar thereto. By way of example, and without limiting the generality of the previous sentence; you may not exchange or communicate pricing or other information relating to System services or products via e-mail or any other electronic means (including but not limited to newsgroups or internet web sites); without CBDF’s prior written permission, list or link your Closets By Design Business, Location or any web site of CBDF or its Affiliates to any other webs site, or to any local internet advertising service, “yellow pages,” portal or search site, without CBDF’s prior written permission; or, promote System services or

products and/or use the Proprietary Marks via direct e-mail solicitation, web sites, newsgroups, or any similar electronic means.

You must open your franchised Closets By Design Business within 120 days after the effective date of the Franchise Agreement. CBDF estimates the typical length of time between the signing of the Franchise Agreement and beginning of your operations as a Closets By Design franchised business will be 90 days. Factors that may affect this length of time include the satisfactory completion of initial training by your designated attendees and availability of a retail location ready to begin operations.

ITEM 12: TERRITORY

You are granted a Franchise to operate at your Location in a specific protected territory (“Territory”) within which you must operate as a Closets By Design franchisee. You cannot conduct any other business anywhere without our written consent, nor conduct any Closets By Design business outside your Territory without our written consent. If you conduct any unauthorized Closets By Design business outside your Territory, you will be required to pay the other franchisee (or CBDF, if the area in which you sell is not then a franchised Closets By Design territory) a market development fee of 25% of the Gross Revenue you obtained from the transaction (section 3.04 A. of the Franchise Agreement). Payment of the market development fee does not authorize you to sell outside the Territory without CBDF’s advance written consent, or excuse or cure the breach of the Franchise Agreement you commit by making the unauthorized sale.

The Territory is determined by population and will typically contain from 300,000 to 350,000 households. The Territory is specified in Exhibit 1 to the Franchise Agreement. While the Franchise Agreement is in effect, CBDF will not locate another Closets By Design franchise in your Territory unless you are not in material compliance with the terms of your Franchise Agreement. However, if you refuse or are unable to provide products and services to Closets By Design customers, CBDF and CBDI reserve the right to provide these products and services in your Territory directly or through subcontractors. And CBDF can solicit “Leads” in your Territory by any means including displays in home centers, catalog, our Internet website, direct mail or telephone sales (see section 3.03 of the Franchise Agreement). If CBDF or another Closets By Design franchisee obtains any Leads from customers in your Territory, CBDF or the other franchisee will offer them to you first. See below in this Item 12. 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.

CBDF will provide you with web pages and links to those web pages on any general Closets By Design web site CBDF maintains. You are prohibited from establishing or maintaining any other web sites related to your Business or Location without CBDF’s advance written consent and, except to the extent that you receive customers through the localized web page CBDF provides to you or to which CBDF has consented, you may not: establish or maintain a site on the world wide web associated in any way with the Business or Location, and you may not advertise, promote or sell System services or products electronically or via the Internet. For example, you may not exchange or communicate pricing or other information relating to System services or products via e-mail or any other electronic means (including, for example, newsgroups or internet web sites); without CBDF’s advance written permission, list or link your Business, Location or any web site of CBDF’s or its affiliates to any other webs site, or to any local internet advertising service, “yellow pages,” portal or search site, without CBDF’s advance written permission; or, promote System services or products and/or use the

Proprietary Marks via direct e-mail solicitation, web sites, newsgroups, or any similar electronic means.

Within 90 days after the effective date of the Franchise Agreement, you must find a site for your Location, obtain CBDF's approval for the Location and sign a lease CBDF approves. You are required to devote all your business activities and to use your best efforts to develop and promote the franchised business, utilizing the trademarks, within your territory. You must comply with all applicable laws, regulations and ordinances (including zoning laws) in establishing your Franchise and Location and must obtain all required business licenses and other permits.

If you breach the Franchise Agreement (including your failure to satisfy the required advertising obligations), then instead of terminating the Franchise Agreement, CBDF has the right, but not the obligation, to redefine and reduce your Territory upon written notice to you. In addition, if CBDF reasonably determines that you are in default of any of your material obligations under the Franchise Agreement, or that you breached your required advertising obligations during any one year period, and after being given notice and an opportunity to cure, then as an alternative to refusing to grant you a Renewal Franchise Agreement, CBDF has the right, but not the obligation, to redefine and reduce your Territory in the subsequent Renewal Franchise Agreement upon written notice to you.

CBDF and its affiliates can own, operate and situate Closets By Design Businesses outside your Territory and near or adjacent to its boundary but no location of any Closets By Design Business to which the public has or will have access can be located within your Territory.

You must not engage in activities that are equivalent to the franchised business outside your Territory without our written consent. Also, you cannot sell any merchandise, equipment, products or services to other Closets By Design franchisees without our advance written consent.

CBDF may itself solicit, or authorize others to solicit, prospective customers for organizer services ("Leads"), through displays in home centers, catalogs, CBDF's web site, direct mail or telephone sales. If CBDF or another Closets By Design franchisee solicits Leads in your Territory, CBDF or the applicable franchisee will first refer the Lead to you and you must pay CBDF or the franchisee up to 120% of the then-current System average cost per lead and must promptly and diligently perform all services requested by the Lead or outlined by us (if you accept it). Notwithstanding the foregoing, to the extent the Lead is generated or obtained using funds collected by the Closets By Design National Promotion and Protection Fund (the "Fund"), you will be required to pay the Fund our then-current Lead referral fee charged for Leads generated by the Fund. At our option, we may set maximum prices for any organizer services that you provide to the Lead (you can charge lower prices). If you don't pay us the fee for the Lead, or don't provide requested services in a timely manner, we may ourselves or authorize another entity or individual to perform the services, and then either we or the other provider will keep all revenue from this service. (See section 3.03 of the Franchise Agreement).

CBDF may negotiate agreements with "National/Regional and Institutional Accounts" (as defined below) to provide Closets By Design System services and products by you or other designated Closets By Design businesses. If CBDF negotiates terms for a National/Regional or Institutional Account that includes your Territory, you must provide Closets By Design services and products (or other authorized products or services) on the terms relating to the specific National/Regional or Institutional Account. CBDF may

designate maximum prices for any Closets By Design services for a National/Regional or Institutional Account, and if it does, you cannot charge more than the maximum price (you can always charge less). A “National/Regional or Institutional Account” is any entity (such as a company or a government agency) that owns, operates, controls or represents multiple locations that extend beyond one Closets By Design Territory where Closets By Design services are provided. (See section 3.05 G. of the Franchise Agreement.)

CBDF may also offer test products and services in your Territory (but only after first offering you the opportunity to provide these services (see section 8.08 of the Franchise Agreement)).

You may not open additional Franchises without our advance written consent, and if you do so with our consent then you will have to sign separate franchise agreements. If these Franchises are adjacent to your existing Franchise, you will be eligible to receive discounts on the initial franchise fee (see Item 5 of this disclosure document). You are required to diligently promote and market the franchised Business, develop to the best of your ability the potential for the franchised Business in your Closets By Design territory, and devote and focus your attentions and efforts to this promotion and development.

If you want to or must relocate your Closets By Design Franchise business premises, at least 30 days before the desired date of relocation, you must make a written request to us for consent to relocate. In your request, you must describe the reasons for the relocation and provide details about the proposed new Closets By Design Franchise business premises. If prior notice is impractical because of an immediate need to relocate, you must give CBDF notice as soon as possible. Within 21 days after receiving your request, CBDF either approves or disapproves of the new Location in writing using its reasonable business judgment. If CBDF does not respond within 21 days, then your proposed new Location will be considered consented to by CBDF. In making our decision, we may consider the following: alternative locations, proximity of the proposed Location to existing and potential Closets By Design Locations, increased market penetration expected, quality of location and the effect on the Closets By Design System. If we disapprove, you may request an alternative proposed new Location (see section 6.04 of the Franchise Agreement).

CBDF and its affiliates can sell ready to assemble (or already assembled) “off the shelf” products to customers in your Territory through other channels of distribution, for example electronic marketing, such as computer network sales (including World Wide Web and/or other solicitations via the Internet or other on-line network); catalogues; home improvement stores, hardware stores, specialty stores, or licensed departments on the premises of another retail enterprise which also sells the products of third parties unrelated to us or our affiliates; and, other retail establishments of any kind other than a dedicated Closets By Design Location. CBDF will contribute 1% of gross revenues it derives from its sale of “off the shelf” products bearing the “Closets By Design” name or trademark (but no other) sold by it to third party retailers for their resale to the public to the Closets By Design National Promotion and Protection Fund. You are not entitled to any direct compensation for sales of “off the shelf” products bearing the “Closets By Design” (or any other) name or trademark resold within your Territory by third party retailers who purchased those products from CBDF and its affiliates.

CBDF and its affiliated companies reserve the right to offer and sell other types of franchises. CBDF’s affiliate CWI owns 4 locations in the states of California and Nevada that operate businesses that are equivalent to those offered under this Disclosure Document under the mark “Closet World”. CWI has no current plans to operate more company-owned Locations or to offer franchises.

CBDF and its affiliates can purchase, merge, acquire, be acquired by or affiliate with (“acquire”) an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that network, chain’s or business’ facilities, and to operate, franchise or license those businesses and/or facilities operating under any marks other than the Proprietary Marks following the purchase, merger, acquisition or affiliation, regardless of the location of these facilities, which may be within the Territory, and proximate to your Closets By Design Location. If CBDF acquires or is acquired by a competitive franchise network, chain or business and then determines to establish a company-owned location of that acquired or acquiring competitor within your Territory where previously there was none, then the location will be considered a “Company Business” and the rights described below with regard to a “Company Business” will apply.

CBDF or any company affiliated with it may operate (or license another entity or individual to operate) one or more competitive or non-competitive businesses within your Territory. If CBDF or any of its affiliates operates (or license another entity or individual to operate) the same type of retail business as yours offering and selling organizer services and products (a “Company Business”) within your Territory, CBDF will cause the Company to provide you with at least 90 days’ advance written notice that a Company Business will begin operating in your Territory and inform you of the date that the Company Business will commence operations (the “Operation Date”). You will have the option described below to sell all of the assets of your Closets By Design Business to CBDF. The option to sell CBDF your assets will also apply if CBDF or an affiliate acquires or is acquired by an existing competitive franchise network, chain or any other business and determines to establish a Company-owned location of that business within your Territory where none existed.

If CBDF or an affiliate informs you that a Company Business will begin operating a business (which may not operate under the Proprietary Marks) that is virtually identical to the Business licensed to you under the Franchise Agreement in your Territory, you will have an option (exercisable within 9 months after the Operation Date for the Company Business stated in the notice you receive) to sell to CBDF, and CBDF would then be obligated to purchase, all of the assets of your Closets By Design Business according to an Asset Purchase Agreement (the current form of this agreement is attached as Exhibit H to this disclosure document) for a purchase price equal to the greater of (i) 4.5 times earnings before interest, taxes, depreciation and amortization (“EBITDA”) of your Closets By Design Business during the 12 months immediately preceding the end of the third month following the Operation Date of the Company Business; (ii) 4.5 times the average annual EBITDA of your Business during the 36 month period immediately preceding the end of the third month following the Operation Date of the Company Business; or (iii) \$250,000, each sum to be adjusted for specified liabilities of yours then existing (see section 3.06 of the Franchise Agreement for additional details of this buy-out option).

If CBDF or its affiliates determine to franchise a Location within your Territory of either an acquired or acquiring competitive business or other business which is virtually identical to the Business licensed to you, you will not receive a buy-out option, but the Franchise Agreement grants you a right of first refusal to acquire this franchise, exercisable within 45 days of your receipt of CBDF’s disclosure document. If you exercise your right of first refusal by notifying CBDF that you wish to do so, you must sign the Franchise Agreement within two weeks following CBDF’s delivery of the Franchise Agreement to you. If you do not exercise your right of first refusal or sign the Franchise Agreement within the required time periods, the right of first refusal terminates automatically. To qualify for these rights of first

refusal, you must meet the then-current qualifications (financial and otherwise) for new franchisees for the franchise. This right of first refusal will not apply to any franchise within your Territory of any competitive business or franchise network CBDF acquires if the franchise was granted before the date of CBDF's acquisition. No compensation will be owed or owing to you as a result of, and you will have no legal or equitable rights to complain of, any franchise of a competitive business CBDF acquires where the franchise was granted before the effective date of its acquisition.

In addition, CBDF and its affiliated companies also have the right to offer and sell other types of franchises that are not directly competitive with the Franchise, in which case CBDF will not be required to provide you with advance written notice and the option described above (as provided in connection with the operation of Company Businesses).

CBDF has not established and does not currently intend to establish franchises under different trademarks. CBDF will not establish any company-owned stores selling Organizers in your Territory using the Proprietary Marks. However, CBDF and its affiliated companies reserve the right to use or allow others to use the Proprietary Marks, including the right to establish company-owned locations selling Organizers using the Proprietary Marks or other marks outside of your Territory.

ITEM 13: TRADEMARKS

You are licensed to operate the franchise business under the principal trademark and logotype displayed on the cover of this disclosure document, and other current or future “trademarks, trade names, service marks and logos CBDF may authorize you to identify the Franchise business (collectively, the “Proprietary Marks”). The following is a description of the Proprietary Marks we will license to you, which have been registered on the Principal Register of the United States Patent and Trademark Office (“USPTO”):

Federal Registrations

Mark	Registration Number	Description Of Mark	Principal Or Supplemental Register	Registration Date
CLOSETS BY DESIGN	2932831	CLOSETS BY DESIGN (Words Only)	Principal	03/15/2005
CD CLOSETBYDESIGN	3023096	CD CLOSETBYDESIGN (Words plus stylized letter design)	Principal	03/15/2005
Everyday Collection	6231635	Everyday Collection (Words Only)	Principal	12/29/2020
CLASSIC COLLECTION	6887245	CLASSIC COLLETION (Words Only)	Principal	11/12022

Mark	Registration Number	Description Of Mark	Principal Or Supplemental Register	Registration Date
REGENCY COLLECTION	6887246	REGENCY COLLECTION (Words Only)	Principal	11/12022

There are presently no effective determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court, nor any pending interference, opposition or cancellation proceedings involving our Proprietary Marks. There are no agreements currently in effect that significantly limit our rights to use or license the use of trademarks listed in this Item in a manner material to the franchise. There is no pending material federal or state court litigation regarding our use or ownership rights in the trademarks. All required affidavits have been filed. All required declarations and renewals have been filed with the U.S. Patent and Trademark Office on a timely basis to maintain the subsisting registrations for the Proprietary Marks.

Our affiliate, Closets By Design, Inc., has licensed us the right to use the Proprietary Marks and to sublicense them to our franchisees pursuant to an intellectual property license agreement effective as of April 12, 2001, (the "IP License Agreement"). Under the IP License Agreement, we have the exclusive, perpetual right to use (and sublicense) the Proprietary Marks worldwide. Our right to use (and sublicense) the Proprietary Marks can be terminated if we (i) become bankrupt or otherwise insolvent; (ii) materially breach the IP License Agreement and fail to substantially cure such breach within the applicable cure period; or (iii) sell all or substantially all of our assets or 50% or more of our voting stock to an unaffiliated third-party. The IP License Agreement may affect you in that, if it is terminated, we may no longer be able to license the Proprietary Marks to you. The IP License Agreement can only be modified if the parties mutually agree in writing.

You must follow our rules when you use the Proprietary Marks. You cannot use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which CBDF licenses to you. You may not use our registered name in the sale of unauthorized products or services or in a manner not authorized in writing by CBDF.

We have the right to control any administrative proceedings or litigation involving a trademark licensed by us to you. You must notify CBDF immediately when you learn about an infringement or challenge to your use of our Proprietary Marks. We then will prosecute the unauthorized use of the Proprietary Marks if it is happening in your Territory or would otherwise materially impact your franchised Business unless, in our reasonable determination, the supposedly unauthorized use of the Proprietary Marks is being engaged in by an individual or entity holding superior intellectual property rights to the Proprietary Marks.

At a minimum, we will use the National Promotion and Protection Fund to defend you against any claim or action challenging or attempting to stop or limit your use of any Proprietary Mark.

You must modify or discontinue the use of a Proprietary Mark if CBDF modifies or discontinues it. If this happens, and there is a change in the name or wording of the Proprietary Mark (as opposed to a change that is merely stylistic in nature, including, by example only, changes in logos, designs, templates, or style of presentation), then we must

(i) reimburse you for your documented expenses of re-identifying any tangible item bearing the now modified or discontinued Proprietary Mark and (ii) spend in your market on local advertising and promotion 30% of the amount you spent on local advertising and promotion in the three month period immediately preceding our notice to you of the Proprietary Mark change. However, if two-thirds or more of the then existing Closets By Design franchised Businesses register support for the Proprietary Mark change, then the provisions of (ii) will not apply. If the Proprietary Mark change is merely stylistic in nature (including, by way of example only, changes in logos, designs, templates, or style of presentation) and there is no change in the name or wording of the Proprietary Mark, we will have no obligation to reimburse you under subparagraph (i) or to make the expenditures under subparagraph (ii), and all expenses of making the change will be at your sole expense.

You must not directly or indirectly contest our rights to our Proprietary Marks, trade secrets or business techniques that are part of our business.

CBDF does not know of any superior prior rights or infringing uses or material determinations of the USPTO, Trademark Trial and Appeal Board, trademark administrator of this state or of any court relating to our Proprietary Marks. Nor does CBDF know of any pending infringement, opposition or cancellation proceedings that could materially affect your use of our Proprietary Marks. There is no known litigation involving any Proprietary Mark.

ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

You do not receive the right to use an item covered by a patent or registered copyright, but you can use the proprietary information in our Confidential Manuals. The Confidential Manuals are described in Item 11 of this disclosure document. Although CBDF has not filed an application for a copyright registration for the Confidential Manuals, it claims a copyright and the information is proprietary. Your and CBDF's obligations to protect your rights to use CBDF's copyrights are the same as the obligations for Proprietary Marks described in Item 13 of this disclosure document. All construction patterns for closets or home/office organizational structure plans of CBDF and CBD are proprietary trade secrets and you must not disclose them to any unauthorized persons. You must also promptly tell us when you learn about unauthorized use of any of our proprietary information. CBDF is not obligated to take any action but will respond to this information as it thinks appropriate. CBDF will indemnify you for losses brought by a third party concerning your authorized use of this information. Your Principals and General Managers must sign the Confidentiality/Non- Competition Agreement in Exhibit 4.

You must permanently and irrevocably assign to CBDF, in perpetuity throughout the world, any and all rights and interests to any and all of the following which is developed by you, or on your behalf, if developed in whole or in part in connection with your franchised Business or Closets By Design Location: all programs, products or services; all variations, modifications and/or improvements on programs, products or services; your means, manner and style of offering and selling programs, products and services; management techniques or protocols you may develop (or have developed on your behalf); all layout schematics and design elements; all sales, marketing, advertising and promotional programs, campaigns or materials developed by you or on your behalf; and, all other intellectual property developed by you or on behalf of your franchised Business.

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

You and/or your Principals are required to personally participate in the direct operation of the Franchise. Your “Principals” include every individual or entity that is or becomes an equity owner of the Franchisee entity. CBDF is not seeking to license franchises if the Principals of the franchisees are merely seeking a passive investment. Your Principals must devote the amount of their time, attention and best efforts to the performance of your duties under the Franchise Agreement that is necessary for the proper and effective operation of the franchised Business. Every current Principal and all future Principals when they assume the status of Principal must sign the Franchise Agreement and the Guarantee in Exhibit 5 to the Franchise Agreement.

Additionally, you must either serve as (if you are an individual) or designate at least 1 full-time General Manager for the Location. The name of the General Manager must be disclosed to us and should the General Manager change, we must be notified in writing. Each General Manager must receive our advance written approval, which we will not unreasonably delay or deny. The General Manager must devote his or her entire business time to the management, of the Franchise business in the Territory. Engaging a General Manager for the franchised Business, does not relieve you (and your Principals) of your and their obligations under the Franchise Agreement (including, without limitation, your obligation to personally participate in the direct operation of the Franchise on a full-time basis). Each General Manager must complete to our satisfaction the Closets By Design Initial Franchise Training. You must have at least one (1) General Manager on duty at the Closets By Design Location during all hours of operation.

He or she also must maintain confidentiality of the trade secrets and cannot have an interest or business relationship with any of our business competitors. If your General Manager is not a Principal, it need not have any equity interest in the business entity. Your Principals, General Managers and all other managerial personnel must sign the Confidentiality/Non-Competition Agreement in Exhibit 4. All of your non-managerial personnel and independent contractors you hire or engage to assist you with the operation of your franchised Business and Closets By Design Location will be required to execute our form of Confidentiality Agreement (Exhibit F to the Franchise Agreement).

ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer all Organizers and other goods and services that CBDF designates as required for all Closets By Design franchisees. Our franchisees will provide a large selection of closet designs, home and office organizational structures and related products. The precise construction plans are contained in the confidential manuals that you will be provided when you become a Closets By Design franchisee. Whenever you use our trademarks, you must only provide the goods and services that we authorize you to (see Item 8 of this disclosure document).

You are not limited as to the customers to whom you may sell our Organizers (see Item 8 of this disclosure document), except for the following limitations: You may not conduct any Closets By Design business outside your Territory without our written consent (see Items 6 and 12). You may only engage in the retail sale of Closets By Design System services and products except for any wholesale sales that we have approved in advance. We must approve in writing any contract or other engagement of yours to provide closets or organizers to or through (i) a national or regional retail store chain or (ii) commercial account, and none of

these engagements may account for more than 20% of your Gross Revenues in any 12-month period (see section 3.04 C. of the Franchise Agreement).

CBDF has the right to add or delete authorized products and services that you are required to offer or sell. There are no limits on its right to do so except that the additional investment you must make (for example, for equipment, supplies and initial inventory) for new products or services or other modifications to the System is limited as follows: The changes will not materially and unreasonably increase your obligations under the Franchise Agreement. No aggregate expenses during the Term of the Franchise Agreement less than or equal to \$25,000 per year (\$15,000 per year if your previous calendar year's Gross Revenues were less than or equal to \$1.8 million dollars) or \$125,000 over the entire Term (\$105,000 if your Gross Revenues never exceed \$1.8 million dollars within any calendar year during the Term), whichever is greater, will be considered material or unreasonable (it being understood that an expense of more than \$25,000 or \$15,000, as applicable, which is payable over more than one year, for example for machinery or equipment, is considered reasonable so long as no one year's payment exceeds \$25,000 or \$15,000, as applicable, and expenses do not exceed the Term aggregate limit).

In addition, CBDF may determine from time to time to incorporate in the System programs, products or services which it either develops or otherwise obtains rights to, which are offered and sold under names, trademarks and/or service marks other than the Proprietary Marks and which your Closets By Design Business, along with some or all other Closets By Design Businesses, will be required to offer and sell. This activity, referred to as "cobranding", may involve changes or additions to the Proprietary Marks and may require you to make modifications to your Closets By Design Business's premises and the furniture, fixtures, equipment, signs and trade dress of your Closets By Design Location. If CBDF gives written notice to you that it is instituting a cobranding program, you must promptly implement that program in your Closets By Design Business at the earliest commercially reasonable time and to execute any and all instruments required to do so.

To the fullest extent allowed by law, CBDF may prescribe the maximum retail prices which you may charge customers for the goods and/or services offered and sold at your Outlet. (See section 7.09 of the Franchise Agreement.)

ITEM 17: RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

	PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a.	Length of the franchise term	4.01	The initial term is 5 years.
b.	Renewal or extension of the term	4.02	If you are in good standing, you can add additional terms of 5 years. If CBDF notifies you that it has ceased franchising in the U.S., it will not renew your and others' Franchise Agreements but will extend your Franchise Agreement to the anniversary date of the notice of ceasing franchising, and you need not pay any Continuing Royalties between the originally scheduled and actual extended expiration dates. See Section 4.02

	PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
			for other consequences of CBDF's notice that it is ceasing the offer of franchises in the U.S.
c.	Requirements for you to renew or extend	4.02 - 4.07	Sign form of Renewal Franchise Agreement; pay \$5,000 renewal fee; sign release; update and/or remodel your Closets By Design Franchise Location if necessary. The Renewal Franchise Agreement you sign may have materially different terms and conditions than your original Franchise Agreement. If CBDF reasonably determines that you have breached your obligation to expend required sums on advertising, then instead of refusing to renew CBDF can agree to renew your Franchise but we can also in such circumstances redefine and reduce your Territory.
d.	Termination by you	Not Applicable	If we are in material breach (beyond any applicable cure periods), you can terminate the Franchise Agreement on any grounds available by law.
e.	Termination by CBDF without cause	Not Applicable	Not Applicable
f.	Termination by CBDF with cause	17.01-17.04	CBDF can terminate only if you default.
g.	"Cause" defined –defaults that can be cured	17.03	You have 10 days after notice to cure unauthorized advertising and reinstate terminated licenses you need to operate the business, and 30 days after notice to cure any other default not listed in section 17.01 or 17.02 (including failure to pay fees and your default under a lease for your Outlet). As an alternative to termination of Franchise Agreement for curable material breach by you, CBDF may elect instead to redefine and reduce your Territory.
h.	"Cause" defined – non-curable defaults	17.01, 17.02	Non-curable defaults: Abandonment, bankruptcy, knowingly inaccurately reporting or withholding gross revenues, repeated defaults even if cured, trademark misuse and unapproved transfers. See Section 17.02 of the Franchise Agreement for other non-curable defaults.
i.	Your obligations on termination/non-renewal	17.08, 18.01, 18.02	Obligations include complete de-identification and payment of amounts due. See Section 17.08 of the Franchise Agreement for obligations concerning pending leads and orders.

	PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
j.	Assignment by CBDF	14.01	No restriction on our right to assign. 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. 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.
k.	"Transfer" by you - definition	14.02	Includes transfer of contract or assets or ownership change.
l.	CBDF approval of transfer	14.02-14.07, 14.09	CBDF has the right to approve all transfers but will not unreasonably withhold or delay approval.
m.	Conditions for CBDF approval of transfer	14.02-14.06, 14.09	New franchisee qualifies, transfer fee paid, purchase agreement approved; training arranged; current agreement signed by new franchisee; transferee agrees to serve as General Manager; contract of assignment must provide that following transfer, the Business must possess required working capital (also see r. below). See Article 14 for other requirements for transfer.
n.	Our right of first refusal to acquire your business	14.07	CBDF can match any offer for your franchise business.
o.	Our option to purchase	3.06	Although we have no option to purchase your business, if we or an affiliate operate the same business in your Territory, you have an option to sell your business to us (see Item 12 and section 3.06 of the Franchise Agreement for details of this buy-out option).
p.	Your death or disability	14.06	Your Estate may continue operating the Business if it provides an acceptable General Manager who successfully completes our Initial Franchise Training and assumes full-time operation of the Business within 6 months of your death or disability. Or Franchise must be assigned by estate to approved buyer within 6 months.
q.	Non-competition during the term of the franchise	12.01, 13.01, Exhibit 4	No involvement in competing business anywhere. (Subject to state law).

	PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
r.	Non-competition after the franchise is terminated or expires	12.01, 13.02, 14.05 A., 18.01, Exhibit 4	No competing business for 2 years within a 35 miles of the perimeter of your Territory or any other Closets By Design Business Territory (whether company-owned, franchised or otherwise established and operated); provided that such post-term covenant period will be tolled for any period during which you or any other such person bound by the terms of the non-competition has not been in full compliance therewith. (Subject to state law). Also, the telephone numbers, customer lists, customer data and other proprietary information used with the franchised business must be transferred to CBDF when you leave the Closets By Design system.
s.	Modification of the agreement	7.01, 8.03, 20.01	No modifications generally, but Confidential Manuals are subject to change.
t.	Integration/merger clause	20.01	Only the Franchise Agreement and Confidential Manuals are binding (subject to state law). Any other promises may not be enforceable. Our integration/merger clause does not disclaim the representations in this disclosure document.
u.	Dispute resolution by arbitration or mediation	Not Applicable	Disputes must be submitted to an appropriate court for resolution (subject to state law).
v.	Choice of forum	23.01	Litigation must be in an appropriate court in California (subject to state law).
w.	Choice of law	23.06	Federal law governs arbitration and trademark issues. The law of the state where your Territory is located governs all issues involving non-competition covenants; modification of the Franchise Agreement while in effect and the maximum rate of interest that may be charged. Otherwise, the franchise agreement will be governed by California law (without regard to California (or any other state's) choice or conflict of law principals (subject to state law).

ITEM 18: PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS

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

In Section I below, we set forth the historic performance information based on the 2022 fiscal year for the 55 franchised Closets By Design Businesses that were open for 12 months or longer as of December 31, 2022 (“Mature Franchised Businesses”). For the purposes of this Item 19, a Franchised Business refers to the umbrella business formed and operated by each Closets By Design franchisee. In many cases, a single Franchised Business will comprise of multiple territories individually purchased by a franchisee and governed by their own respective franchise agreement.

In Section II below, we set forth the historic performance information based on the 2022 fiscal year for the 69 franchised Closets By Design territories that were open for 12 months or longer as of December 31, 2022 (“Mature Franchised Territories”). For the purposes of this Item 19, a Franchised Territory refers to the single territory individually purchased by a franchisee and governed by its own franchise agreement. Some franchisees operate a Franchised Business comprised of multiple Franchised Territories.

Financial performance information regarding the 7 non-franchised Closets By Design Businesses owned and operated by our affiliate CBDF is not included in this Item 19 disclosure.

I. 2022 Fiscal Year End Financial Information for Mature Franchised Businesses

Table A below sets forth certain financial information based upon all Mature Franchised Businesses as of the 2022 fiscal year. Table B below breaks the information set forth in Table A into four quartiles of performance (i.e., the highest 25% of all Mature Franchised Businesses to the lowest 25% of all Mature Businesses).

A. 2022 Fiscal Year End Financial Information for All Mature Franchised Businesses

Average Annual Sales* (1)	Median Annual Sales (1)	Closing Ratio % (2)	Average Sale** (3)	Median Sale
\$9,030,016	\$6,175,089	50.57%	\$5,647	\$5,578

* As of December 31, 2022, there were 55 Mature Franchised Businesses. Of these 55 Mature Franchised Businesses, 19 (or 34.5%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being \$31,920,814 and the lowest Annual Sales earned being \$1,431,006.

As of December 31, 2022, there were 55 Mature Franchised Businesses. Of these 55 Mature Franchised Businesses, 25 (or 45.5%) met or exceeded the Average Sale, with the highest Average Sale being \$7,606 and the lowest Average Sale being \$3,673.

B. 2022 Fiscal Year End Financial Information for Mature Franchised Businesses, Broken Down by Quartile

Quartiles	Average Annual Sales (1)	Median Annual Sales (1)	Closing Ratio % (2)	Average Sale	Median Sale
*Highest 25% (13 Mature Franchised Businesses)	\$19,233,408	\$15,932,452	55.5%	\$5,966	\$5,900

Quartiles	Average Annual Sales ⁽¹⁾	Median Annual Sales ⁽¹⁾	Closing Ratio % ⁽²⁾	Average Sale	Median Sale
**Second 25% (14 Mature Franchised Businesses)	\$8,920,870	\$8,399,294	51.7%	\$5,752	\$5,794
***Third 25% (14 Mature Franchised Businesses)	\$5,550,766	\$5,744,287	51.4%	\$5,528	\$5,362
****Lowest 25% (14 Mature Franchised Businesses)	\$3,143,833	\$3,479,924	44.0%	\$5,365	\$5,206

*As of December 31, 2022, there were 55 Mature Franchised Businesses, of which 13 performed in the highest 25% of all Mature Franchised Businesses (“First Quartile Businesses”). Of these 13 First Quartile Businesses, 13 (or 100%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being a \$31,920,814 and the lowest Annual Sales earned being \$14,000,903; and 10 (or 77%) met or exceeded the Average Sale, with the highest Sale being \$7,222 and the lowest Sale being \$4,634.

** As of December 31, 2022, there were 55 Mature Franchised Businesses, of which 14 performed in the second highest 25% of all Mature Franchised Businesses (“Second Quartile Businesses”). Of these 14 Second Quartile Businesses, 6 (or 43%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being a \$12,466,212 and the lowest Annual Sales earned being \$6,552,524; and 8 (or 57%) met or exceeded the Average Sale, with the highest Sale being \$6,853 and the lowest Sale being \$4,774.

*** As of December 31, 2022, there were 55 Mature Franchisees, of which 14 performed in the third highest 25% of all Mature Franchised Businesses (“Third Quartile Businesses”). Of these 14 Third Quartile Businesses, 0 (or 0%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being a \$6,175,089 and the lowest Annual Sales earned being \$4,672,359; and 4 (or 29%) met or exceeded the Average Sale, with the highest Sale being \$6,667 and the lowest Sale being \$4,806.

**** As of December 31, 2022, there were 55 Mature Franchised Businesses, of which 14 performed in the fourth highest 25% of all Mature Franchised Businesses (“Fourth Quartile Businesses”). Of these 14 Fourth Quartile Businesses, 0 (or 0%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being \$4,517,469 and the lowest Annual Sales earned being \$1,431,006; and 4 (or 29%) met or exceeded the Average Sale, with the highest Sale being \$7,606 and the lowest Sale being \$3,673.

II. 2022 Fiscal Year End Financial Information for Mature Franchised Territories

Table A below sets forth certain financial information based upon all Mature Franchised Territories as of the 2022 fiscal year. Table B below breaks the information set forth in Table A into four quartiles of performance (i.e., the highest 25% of all Mature Franchised Territories to the lowest 25% of all Mature Franchised Territories).

A. 2022 Fiscal Year End Financial Information for All Mature Franchised Territories

Average Annual Sales* (1)	Median Annual Sales (1)	Closing Ratio % (2)	Average Sale** (3)	Median Sale
\$7,197,839	\$5,040,730	51.2%	\$5,673	\$5,581

*As of December 31, 2022, there were 69 Mature Franchised Territories. Of these 69 Mature Franchised Territories, 20 (or 29%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being \$31,920,814 and the lowest Annual Sales earned being \$643,466.

As of December 31, 2022, there were 69 Mature Franchised Territories. Of these 69 Mature Franchised Territories, 32 (or 46%) met or exceeded the Average Sale, with the highest Average Sale being \$7,606 and the lowest Sale being \$3,673.

B. 2022 Fiscal Year End Financial Information for Mature Franchised Territories, Broken Down by Quartile

Quartiles	Average Annual Sales (1)	Median Annual Sales (1)	Closing Ratio % (2)	Average Sale	Median Sale
*Highest 25% (17 Mature Franchisees)	\$16,220,991	\$14,156,081	55.4%	\$5,990	\$5,937
**Second 25% (17 Mature Franchisees)	\$6,378,019	\$6,410,022	51.3%	\$5,651	\$5,581
***Third 25% (17 Mature Franchisees)	\$4,152,112	\$3,978,258	48.1%	\$5,423	\$5,260
****Lowest 25% (18 Mature Franchisees)	\$2,326,766	\$2,480,431	50.0%	\$5,630	\$5,267

* As of December 31, 2022, there were 69 Mature Franchisees, of which 17 performed in the highest 25% of all Mature Franchisees (“First Quartile Businesses”). Of these 17 First Quartile Businesses, 17 (or 100%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being a \$31,920,814 and the lowest Annual Sales earned being \$7,909,129; and 13 (or 76%) met or exceeded the Average Sale, with the highest Sale being \$7,222 and the lowest Sale being \$4,634.

** As of December 31, 2022, there were 69 Mature Franchisees, of which 17 performed in the second highest 25% of all Mature Franchisees Businesses (“Second Quartile Businesses”). Of these 17 Second Quartile Businesses, 3 (or 18%) met or exceeded the

Average Annual Sales, with the highest Annual Sales earned being a \$7,809,717 and the lowest Annual Sales earned being \$5,106,656; and 7 (or 41%) met or exceeded the Average Sale, with the highest Sale being \$6,667 and the lowest Sale being \$4,774.

*** As of December 31, 2022, there were 69 Mature Franchisees, of which 17 performed in the third highest 25% of all Mature Franchisees (“Third Quartile Businesses”). Of these 17 Third Quartile Businesses, 0 (or 0%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being a \$5,040,730 and the lowest Annual Sales earned being \$3,298,652; and 6 (or 35%) met or exceeded the Average Sale, with the highest Sale being \$7,222 and the lowest Sale being \$3,673.

**** As of December 31, 2022, there were 69 Mature Franchisees, of which 18 performed in the fourth highest 25% of all Mature Franchisees (“Fourth Quartile Businesses”). Of these 18 Fourth Quartile Businesses, 0 (or 0%) met or exceeded the Average Annual Sales, with the highest Annual Sales earned being \$3,217,131 and the lowest Annual Sales earned being \$643,466; and 7 (or 39%) met or exceeded the Average Sale, with the highest Sale being \$7,606 and the lowest Sale being \$4,843.

Notes:

(1) “Annual Sales” means the grand total of all contracts sold for the reported fiscal year, exclusive of any documented refunds, chargebacks, credits and allowances that are given in good faith to customers; and, all sales, use or similar taxes that are legally charged to customers (if such taxes were added, the taxes charged to the customers).

(2) The closing ratio percentage is the ratio of (x) the number of sales to different customers to (y) the number of different potential customers seen (with any potential customer seen more than once being counted as only one potential customer), expressed as a percentage.

(3) “Sale” refers to the total contract price exclusive of documented refunds, chargebacks, credits and allowances that are given in good faith to customers; and, all sales, use or similar taxes that are legally charged to customers (if such taxes were added the taxes charged to the customers).

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

CBDF does not furnish or authorize any of its officers, employees or salespersons to furnish any oral or written economic projections for any franchised Closets By Design Business.

CBDF will make written substantiation of the data used in preparing the information above available to you upon reasonable request. The information was furnished to CBDF by its franchisees, who did not audit it. It is important to note that CBDF itself has not audited or otherwise independently verified the information furnished to CBDF by its franchisees.

Other than the preceding financial performance representation, CBDF does not make any financial performance representations. 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 our future income, you should report it to the franchisor’s management by contacting our President, Mr. Gerald “Jerry” Egner, whose address is 13272 Garden Grove Blvd., Garden Grove, California 92843 and telephone

number is (714) 890-5860; the Federal Trade Commission; and the appropriate state regulatory agencies.

ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

System-wide Outlet Summary for Years 2020 to 2022

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2020	57	60	+3
	2021	60	65	+5
	2022	65	66	+1
Owned By CBDI and CBDF	2020	6	6	0
	2021	6	7	+1
	2022	7	6	-1
Total Locations	2020	63	66	+3
	2021	66	72	+6
	2022	73	72	0

As of December 31, 2022, CBDF also had five (5) franchised Outlets operating in Canada.

Table No. 2

Transfers of Outlets from Franchisees to New Owners (Other than the Franchisor) for Years 2020 to 2022

State	Year	Number of Transfers
Florida	2020	1
	2021	0
	2022	0
Illinois	2020	1
	2021	0
	2022	0
Indiana	2020	0
	2021	1
	2022	0
Louisiana	2020	1
	2021	0
	2022	0
New Jersey	2020	0
	2021	0
	2022	0
Ohio	2020	0
	2021	1
	2022	0

State	Year	Number of Transfers
Texas	2020	0
	2021	0
	2022	0
All Other States	2020	0
	2021	0
	2022	0
Total	2020	3
	2021	2
	2022	0

Table No. 3
Status of Franchised Outlets for Years 2020 to 2022

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
Alabama	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
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	0	1	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Florida	2020	10	1	0	0	0	0	11
	2021	11	1	0	0	0	0	12
	2022	12	0	0	0	0	0	12
Georgia	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
	2022	1	0	0	0	0	0	1
Illinois	2020	4	1	0	0	0	0	5
	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
Indiana	2020	1	0	0	0	0	0	1
	2021	1	1	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Iowa	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Kansas	2020	0	0	0	0	0	0	0
	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Kentucky	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Louisiana	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
Michigan	2020	2	1	0	0	0	0	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
Minnesota	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Missouri	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Nebraska	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	1	0	0
	2022	0	0	0	0	0	0	0
Nevada	2020	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
New Jersey	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
New York	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
North Carolina	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Ohio	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
Oregon	2020	2	0	0	0	0	2	0
	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Pennsylvania	2020	1	1	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
South Carolina	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Tennessee	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Texas	2020	4	0	0	0	0	0	4
	2021	4	1	0	0	0	0	5
	2022	5	1	0	0	0	1	6
Utah	2020	1	1	0	0	0	1	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Virginia	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of the Year
Washington	2020	3	0	0	0	0	0	3
	2021	3	1	0	0	0	0	4
	2022	4	0	0	0	0	0	1
Wisconsin	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	1	0	0	0	0	2
All Other States	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Canada	2020	6	0	0	1	0	0	5
	2021	5	0	0	0	0	0	5
	2022	5	0	0	0	0	0	5
Total (excluding Canadian outlets)	2020	57	6	0	0	0	3	60
	2021	60	6	0	0	1	0	65
	2022	65	2	0	0	0	1	66

As of December 31, 2022, CBDF had five (5) franchised Outlets operating in Canada.

**Table No. 4
Status of Company Owned Outlets for Years 2020 to 2022**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
California	2020	6	0	0	0	0	6
	2021	6	0	0	0	0	6
	2022	6	0	0	0	0	6
Nebraska	2020	0	0	0	0	0	0
	2021	0	0	1	0	0	1
	2022	1	0	0	1	0	0
All Other States	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
Total	2020	6	0	0	0	0	6
	2021	6	0	1	0	0	7
	2022	7	0	0	1	0	6

Table No. 5
Projected Openings as of December 31, 2022

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
Michigan	0	1	0
New Jersey	0	1	0
Wisconsin	0	1	0
All States	0	0	0
Total	0	3	0

Please understand that you have the opportunity to contact existing and certain other former franchisees and we urge you to do so.

Exhibit C lists, as of the date of this disclosure document, the names, addresses and telephone numbers of all open and operating franchise territorial outlets in the Closets By Design system, and the names and telephone numbers of any franchisees that signed franchise agreements but not yet opened their outlets.

Exhibit D lists, as of the date of this disclosure document, the contact information of every franchisee who had a territorial outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during our most recently completed fiscal year, and every franchisee who has not communicated with us within 10 weeks of this 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.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with Closets by Design. 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. However, during the last 3 fiscal years, we have not signed any agreements with current or former franchisees that included confidentiality clauses.

We have not created, sponsored or endorsed any trademark-specific franchisee organizations associated with the Closets by Design franchise system being offered. There are no independent franchisee organizations that have asked to be included in this disclosure document.

ITEM 21: FINANCIAL STATEMENTS

Attached as Exhibit B are our (i) unaudited financials for the period covering January 1, 2023 through February 28, 2023; and (ii) audited financial statements for the fiscal years ended December 31, 2022, December 31, 2021 and December 31, 2020.

ITEM 22: CONTRACTS

Exhibit A - Franchise Agreement proposed for use in this state includes the general release agreements you must sign on renewal and assignment (Exhibits 6 and 7)

Exhibit H - Asset Purchase Agreement (for use with your buy-out option)

ITEM 23: RECEIPTS

You will find copies of a detachable receipt in Exhibit M at the very end of this disclosure document.

EXHIBIT A

CLOSETS BY DESIGN®

FRANCHISE AGREEMENT

EXHIBIT A

**CLOSETS BY DESIGN
FRANCHISE AGREEMENT**

For: _____

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FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT ("Agreement") is made and entered into as of the ___ day of _____, 20__ (the "Effective Date"), by and between CBD Franchising, Inc., a California corporation ("we", "us", "our", "Franchisor" or "Company") and _____ whose principal address is _____, ("you", "your" or "Franchisee"), and every individual or entity who is or becomes an equity owner of Franchisee (in such context "Principal"). Principals are parties to the Agreement.

1. INTRODUCTION

1.01 **The Closets By Design Businesses and System.** We do business as "Closets By Design". As a result of the expenditure of time, skill, effort and money, we have developed a proprietary system for developing, opening and operating retail businesses (the "Closets By Design Businesses" or the "Businesses") specializing in the offer and sale of custom closets, custom home and office organizers, other customized organizer services and related services and products for private homes, commercial businesses and any other types of locations we designate or approve (the "Closets By Design System" or the "System"). We continue to expend time, skill and money to investigate new or substitute procedures, systems, services, products, programs and activities and, if we consider it desirable, to develop and integrate them into the Closets By Design System.

1.02 **The Proprietary Marks.** We own (or are licensed to use) the trademark, service mark and trade name "Closets By Design®," related logos, emblems, designs, labels, signs and symbols used in connection with Closets By Design Businesses; various copyrighted materials; and, other intellectual property, certain of which are associated with the operation of a Closets By Design Business; constitute an integral part of the Closets By Design System and are licensed to you under this Agreement. This Agreement refers to the name(s), mark(s), logotype(s), emblem(s), design(s), label(s), sign(s), symbol(s), copyrights, templates and other intellectual property which we will license to you under this Agreement as the "Proprietary Marks". The Proprietary Marks that we will license to you under this Agreement are in Exhibit 2. We continue to develop, use and control the use of the Proprietary Marks to identify for the public the source of services and products marketed under the Proprietary Marks and to represent the high standard of quality associated with these services and products.

1.03 **The Franchise.** You wish to obtain a franchise to operate one Closets By Design Business under the Proprietary Marks and the Closets By Design System in the Territory described in Section 3.01 below. We wish to grant you this franchise, on the terms and subject to the conditions of this Agreement.

2. GRANT OF FRANCHISE AND LICENSE

2.01 **Grant of Franchise.** We grant you, and you accept the right to operate one Closets By Design Business (the "Business"), subject to the terms and provisions of this Agreement and all related agreements. We also grant you the right to use the Closets By Design System, as we may change, improve, modify or further develop it from time to time. The grant of rights under this Agreement is limited to the Territory specified in Section 3.01 of this Agreement.

2.02 **Grant of License to Proprietary Marks.** We grant you, and you accept, a non-exclusive license to use and display the Proprietary Mark(s) shown on Exhibit 2 (so long as we do not subsequently designate them as being withdrawn from use), together with those Proprietary Marks which we may later designate in writing, subject to the terms and provisions of this Agreement and all related agreements. This license applies solely to the operation of the franchised Business and the services and products offered and sold at and from the Business. This license is limited to the Territory specified in Section 3.01 of this Agreement.

3. TERRITORY

3.01 **Territorial Grant.** Your right to establish and operate a Closets By Design Business is restricted to the geographic area (the "Territory") described in Exhibit 1 by a map or written description. You may operate your Closets By Design Business from only one Closets By Design Location situated within the Territory. Your "Closets By Design Location" means the location you select and we approve, from which you must operate your franchised Business continuously and without interruption throughout the term of this Agreement.

3.02 Our Restrictions. Within the Territory, we, our affiliates, subsidiaries and designees (together, the “Affiliates”) will not operate a Company-owned business of the type franchised under this Agreement under the Proprietary Marks, so long as you are not in default under this Agreement and all other related agreements, and except as provided in Section 3.05 (“Rights We Reserve”). These restrictions will terminate immediately upon the termination or expiration of this Agreement for any reason. Notwithstanding the foregoing, however, if Franchisee refuses or is unable to provide products and services under the “Closets By Design” mark to any retail customers which require performance in the Territory, Franchisor or any of its Affiliates reserve the right to provide these products and services in the Territory directly or through subcontractors.

3.03 Our Right to Solicit Leads in Territory.

A. “Custom Organizer Services” means custom closet and/or other customized home organizer services offered and sold under the Closets By Design System. We retain the right, at our sole option: (i) directly, or through others whom we authorize, to solicit, generate and pursue “Leads” (defined as the name, address and telephone number of any prospective residential customer for Custom Organizer Services), whether within or outside the Territory by any means whatsoever, including, but not limited to, displays in home centers, catalog, direct mail or telephone sales, and (ii) to ourselves provide Custom Organizer Services or license others the right to provide Custom Organizer Services or other products bearing the Proprietary Marks or other marks to the Lead, whether within and outside of the Territory, by any and all means of distribution, including but not limited to distributors, retail chains or outlets, mail, telephone orders, catalog sales or otherwise.

B. If we solicit and secure a Lead in the Territory, we will first refer the Lead to you. If you choose to accept the Lead, you agree to pay up to 120% of the then-current System average cost per Lead and to promptly and diligently perform all services requested by the Lead or directed by us. Notwithstanding the foregoing, to the extent the Lead is generated or obtained using funds collected by the Closets By Design National Promotion and Protection Fund (the “Fund”) (as addressed in Section 10.04 below), you will be required to pay the Fund our then-current Lead referral fee charged for Leads generated by the Fund. We may (at our option) designate maximum prices for any Custom Organizer Services that you provide to the Lead and, if we do so, you agree to charge either the maximum prices we set or, in your sole discretion, lower prices. If you fail to pay the designated fee for the Lead referral, or you decline or fail to perform such Custom Organizer Services in a timely manner or cooperate with us in servicing any Lead which we have so referred to you, then we may, at our option, perform or authorize another entity or individual to perform the applicable Custom Organizer Services and the provider of the Services will be entitled to retain all revenue generated from this.

C. If another Closets By Design franchisee solicits and secures a Lead in the Territory, the franchisee will first refer the Lead to you. If you choose to accept the Lead, you agree to pay the referring franchisee the fee we designate for the Lead referral and to promptly and diligently perform all services requested by the Lead or directed by us. We may (at our option) designate maximum prices for any Custom Organizer Services that you provide to the Lead and, if we do so, you agree to charge either the maximum prices we set or, in your sole discretion, lower prices. If you fail to pay the referring franchisee the designated fee for the Lead referral, or you decline or fail to perform such Custom Organizer Services in a timely manner or cooperate with us and the franchisee in servicing any Lead which a franchisee has so referred to you, then we may, at our option, perform or authorize another entity or individual (including the referring franchisee) to perform the applicable Custom Organizer Services and the provider of the Services will be entitled to retain all revenue generated from this.

D. If you solicit and secure a Lead in the Territory of a company-owned or franchised Closets By Design Business, you must refer the Lead to that Business. If the Closets By Design Business chooses to accept the Lead, it will pay you the fee we designate for the Lead referral and promptly and diligently perform all services requested by the Lead or directed by us. We may (at our option) designate maximum prices for any Custom Organizer Services that provided to the Lead. If the Business receiving the referral fails to pay the designated fee for the Lead referral, or declines or fails to perform such Custom Organizer Services in a timely manner or cooperate with you and us in servicing any Lead which you have so referred to another company owned or franchised Closets By Design Business, then we may, at our option, authorize you to perform the applicable Custom Organizer Services and in this case you will be entitled to retain all revenue generated from this; alternatively, we may designate another entity or individual to perform the applicable Custom Organizer Services and such other entity or individual will be obligated to pay you the Lead referral fee we designate.

E. Leads may result from local, regional or national programs that we establish. We will have the right to negotiate and enter into arrangements for regional and national programs upon whatever terms and conditions that we deem appropriate. If you choose to accept a Lead referred to you as a result of any such local, regional or national program, you must agree to accept all terms as negotiated by us; these terms may include maximum prices for certain products and services and/or the payment of a commission to a third party on sales from the Lead. If at any time, (i) you refuse to service a Lead referred to you; (ii) a Lead requests that we or our designee service the Lead; or (iii) you fail to maintain our quality standards of performance in providing Custom Organizer Services to a Lead referred to you and accepted by you, we will have the right at any time, at our sole option, to service the Lead directly or to designate another entity (including another Closets By Design franchisee) to service the Lead, and you will be owed no compensation in connection with this.

3.04 **Your Restrictions.**

A. You understand and agree that, subject to the provisions of this subsection, you are prohibited from selling Closets By Design services or products outside your Territory without our prior written permission (which may be granted or denied for any reason). If you fail to obtain our prior written permission and sell Closets By Design services or products outside your Territory, then you agree to pay to the other Closets By Design franchisee whose territory you are selling in, or to us (if the territory in which you sell is not then franchised), as applicable, an out of market development fee ("Out of Market Development Fee") of 25% of the Gross Revenue you obtain from the extraterritorial transaction to compensate the franchisee or us (as applicable) for its or our efforts to develop the subject market. Payment of the Out of Market Development Fee does not authorize you to sell outside the Territory without our prior written consent, or excuse or cure the breach of this Agreement you commit by making any such unauthorized sales.

B. You may only engage in the retail sale of Closets By Design System services and products. Except for wholesale sales that we have approved in advance, you are prohibited from engaging in the wholesale sale or distribution of any Closets By Design service, product, equipment or other component which is now or in the future part of the Closets By Design System, or any related product or service. "Retail sale" means any sale by you directly to an ultimate consumer. "Wholesale sale or distribution" means any sale or distribution by you to a third party for resale, retail sale, or further distribution. "Component" means any constituent part, ingredient, element, segment or derivative. Without limiting the generality of this Section, you may not sell any merchandise, equipment, products or services to other Closets By Design franchisees without our prior written consent, which we may withhold for any reason or for no reason.

C. You must submit for our prior written approval any contract or other engagement for you to provide Closets By Design services or products to or through a national or regional retail store chain or any other commercial account. Our approval with respect to national or regional store chains will be subject to our rights with respect to National, Regional and Institutional Accounts provided for under Section 3.05 (G). Our approval of your proposed contracts or engagements with other commercial accounts will not be unreasonably withheld or delayed, provided that no commercial contract or engagement may account for more than 20% of your Gross Revenues in any 12-month period.

D. We alone may establish, maintain, modify or discontinue all internet, worldwide web and electronic commerce activities pertaining to the System, including through the use of a page or profile on a social media website such as Facebook, Instagram, LinkedIn or Twitter. You acknowledge, understand and expressly agree that neither you nor your employees are allowed to establish your own respective profiles on any social media page reflecting the Closets by Design brand, nor are you or your employees allowed to establish any Closets by Design related web page. We may provide you with a "click through" subpage on any general Closets By Design web site we maintain. If we establish one or more websites or other modes of electronic commerce and if we provide a "click through" subpage at each such website for the promotion of your Closets By Design Business, you agree to routinely provide us with updated copy, photographs and news stories about your franchised Business suitable for posting on your franchised Business's "click through" subpage, the content, frequency and procedure of which will be specified in our Manual. Any websites or other modes of electric commerce that we establish or maintain may – in addition to advertising and promoting the programs, products, or services available at Businesses – also be devoted in part to offering Closets By Design Business franchises for sale and be utilized by us to exploit the electronic commerce rights which we alone reserve (as provided in Section 3.05(E) below). You may not, without our prior written consent, establish or maintain any other websites or social media page; otherwise maintain a presence or advertise on the internet, through social media or in any other mode of electronic commerce in connection with your franchised Business, including through the use of a page or profile on a social media website such as Facebook, Instagram, LinkedIn

or Twitter; establish a link to any website we establish at or from any other website or page; or, at any time establish any other website, social media or electronic commerce presence which in whole or in part incorporates the "Closets By Design" name or any name confusingly similar thereto. By way of example, and without limiting the generality of the previous sentence; you may not exchange or communicate pricing or other information relating to System services or products via e-mail or any other electronic means (including but not limited to newsgroups or internet web sites); without our prior written permission, list or link your Business, Location or any web site of ours or our Affiliates to any other web site, or to any local internet advertising service, "yellow pages," portal or search site, without our prior written permission; or, promote System services or products and/or use the Proprietary Marks via direct e-mail solicitation, web sites, newsgroups, or any similar electronic means.

3.05 Rights We and our Affiliates Reserve. You will only have the right to operate the franchised Business subject to the terms and conditions of this Agreement. We specifically reserve all other rights to ourselves and our Affiliates. For example, and without limitation, we and our Affiliates have the right, now or in the future:

- A. To own, operate and situate Closets By Design Businesses outside the Territory as we or our Affiliates consider appropriate. The territories and/or locations of these Closets By Design Businesses may be immediately proximate to, adjacent to or abutting the boundary of the Territory, provided, however, that in no instance shall any location of any such Closets By Design Business to which the public has or will have access be located within your Territory.
- B. As provided in full in Section 3.03 above, to solicit, generate and pursue Leads (directly, or through others whom we authorize), within or outside the Territory by any means whatsoever
- C. To grant franchises, licenses, contracts, and/or enter into joint venture agreements for the operation of Closets By Design Businesses outside the Territory as we or our Affiliates consider appropriate. The territories and/or locations of these Businesses may be immediately proximate to, adjacent to or abutting the boundary of the Territory.
- D. To offer and sell services and products within the Territory that is not part of the Closets By Design System through any distribution method, exploiting our and our Affiliates' Proprietary Marks, name, reputation and know-how.
- E. To offer and sell (either directly or through other franchisees), through channels and methods of distribution other than a dedicated Closets By Design Location, ready to assemble (or already assembled) "off the shelf" products to any customer wherever located, including customers in your Territory and including customers near your Closets By Design Location (subject to the National/Regional and Institutional Account requirements of subsection G, if applicable). These other channels and methods of distribution may include, without limitation, and except as otherwise provided in this Agreement: electronic marketing, such as computer network sales (including, without limitation, World Wide Web and/or other solicitations via the Internet or other on-line network); catalogues; home improvement stores, hardware stores, specialty stores, or licensed departments on the premises of another retail enterprise which also sells the products of third parties unrelated to us or our Affiliates; and, other retail establishments of any kind other than a dedicated Closets By Design Location. We shall contribute 1% of gross revenues we derive from our sale of "off the shelf" products bearing the "Closets By Design" name or trademark (but no other) and sold by us to third party retailers (for their resale to the public) to the Closets By Design National Promotion and Protection Fund (as addressed in Section 10.04 below), such contributions to be made quarterly within at least 45 days following the close of the quarter during which such revenues were collected by us.
- F. To purchase, merge, acquire, be acquired by or affiliate with ("acquire") an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that network's, chain's or business's facilities, and to operate, franchise or license those businesses and/or facilities operating under any marks other than the Proprietary Marks following the purchase, merger, acquisition or affiliation, regardless of the location of these facilities, which may be within the Territory, and proximate to your Closets By Design Location. If we acquire or are acquired by a competitive franchise network, chain or business and thereafter determine to establish a company-owned location of that acquired or acquiring competitor within your Territory where previously there was none, then such location shall be deemed a "Company Business" and the rights vested in you pursuant to Section 3.06 below

with regard to such a "Company Business" shall apply. If, following such an acquisition, we determine to establish a franchise of the newly acquired or acquiring competitive business within your Territory where before such acquisition there was none, then we shall notify you of such determination and you are hereby granted a right of first refusal to acquire such franchise on the terms and conditions set forth below and in the franchise disclosure document relating to such franchise, such right of first refusal to be exercised by you within 45 days following our furnishing to you of the franchise disclosure document relating to such franchise. You shall exercise your right of first refusal by notifying us within such time of your election to acquire the subject franchise. Thereafter, you shall execute and return to us the franchise agreement for the subject franchise within two (2) weeks following our delivery of same to you. If you fail or refuse to either timely notify us of your exercise of the within right of first refusal or timely execute the aforementioned franchise agreement for the subject franchise, you understand and agree that the right of first refusal conferred hereby with regard to such franchise shall irrevocably terminate automatically and with no further notice from us. Similarly, if any of our affiliates determine to establish a franchise within your Territory, an identical right of first refusal is hereby granted to you on the same terms and conditions as set forth in the preceding sentence. In order for you to qualify for the exercise of these rights of first refusal to acquire such franchises, you must meet the then-current qualifications (financial and otherwise) for new franchisees for the subject franchise. In connection with any such acquisition, we hereby covenant not to share with any acquired entity (or its affiliates, franchisees or other designees) any specific customer identities or operating or financial data specific to your Business. You understand and agree that no compensation will be owed or owing to you as a result of, and you will have no legal or equitable rights to complain of, any franchise of a competitive business we acquire which franchise was granted prior to the effective date of our acquisition. Except as explicitly set forth herein, none of the rights set forth in Section 3.06 below shall be triggered by any of the activities contemplated and/or identified in this subsection "F".

- G. Both within and outside the Territory, to offer and sell Closets By Design System services and products at retail to National/Regional and Institutional Accounts. "National/Regional and Institutional Accounts" are organizational or institutional customers whose presence is not confined to your Territory, including (without limitation): department store chains, hotel/motel chains, real estate management companies, real estate developers, hospitals, federal, state, and local governmental and quasi-governmental agencies, branches or facilities; and, any other customer not confined to your Territory. Except to the extent that we have already given our approval to your provision of Closets By Design services and products to a national or regional retail store chain pursuant to Section 3.04(C) above, only we will have the right to enter into contracts with National, Regional and Institutional Accounts with outlets or locations within your Territory. We will give you the opportunity to service any outlets or locations of National/Regional and Institutional Accounts in your Territory at the price we agree on with the National/Regional and Institutional Account. If, for any reason, you do not desire to service a National/Regional and Institutional Account or cannot service the Account for any reason, or if the National/Regional and Institutional Account desires for any reason to deal exclusively with us, our Affiliates or another franchisee and not with you, then we, our Affiliates or any other Closets By Design franchisee or designee may service the Account within your Territory, and you will be entitled to no compensation in connection with this. The procedures governing our National/Regional and Institutional Accounts program will be set forth in our Manual.
- H. Both within or outside the Territory, to own and/or operate (or license another entity or individual to operate) one or more businesses virtually identical to the Business licensed to you under this Agreement (a "Company Business"), which Company Business may offer and sell custom organizer services and products, subject to the provisions of Section 3.06 below.

3.06 Rights Concerning Company Businesses.

A. We and our Affiliates have the right, now or in the future, both within or outside the Territory, to own and/or operate one or more businesses virtually identical to the Business licensed to you under this Agreement (each, a "Company Business"). We and our Affiliates also have the right, now or in the future, to license or franchise another individual or entity to operate one or more virtually identical businesses either within and/or outside of your Territory (each a "franchise"). As used in this Section 3.06, the "Company" will mean the owner and/or operator of the Company Business. A Company Business may offer and sell custom organizer

services and products, subject to the following: (i) the Company Business may not operate in your Territory under the Proprietary Marks, (ii) we will cause the Company to provide you with at least 90 days advance written notice that a Company Business will begin operating in your Territory, informing you of the date that the Company Business will commence operations (the "Operation Date"), and (iii) for a period of nine months commencing on the Operation Date of a Company Business within your Territory, subject to the Company's successfully obtaining any and all required consents of the banks or other financial institutions providing financing to the Company, you will have the right (the "Option"), but not the obligation, to notify us in writing (an "Option Notice") that you will sell all, but not less than all (unless otherwise agreed by us in writing), of the assets of your Business to us (the "Assets"), and we will be obligated to buy the Assets from you, all on the terms set forth herein. We will determine the closing date for the purchase of the Assets (the "Closing Date") but it will not be later than six months after the date we receive the Option Notice from you. Upon your exercise of the Option, the Company and you will enter into an "Asset Purchase Agreement" substantially in the form set forth in the franchise disclosure document furnished to you in connection with your acquisition of the within franchise. The Option hereby vested in you hereby shall also apply should we or our Affiliate acquire or be required by an existing competitive franchise network, chain or any other business and determine to establish a Company-owned location of that business within your Territory where none theretofore existed (as provided above in Section 3.05[f] of this Agreement). Should we determine to franchise a location within your Territory of either such an acquired or acquiring competitive business or a business we or our affiliates, now or in the future, own and/or operate which is virtually identical to the Business licensed to you hereunder, then we hereby grant you a right of first refusal with regard to such franchise, exercisable as follows: we will furnish to you our then-current franchise disclosure document for the applicable franchise, which shall constitute our "offer" and, within 45 days following your receipt of our franchise disclosure document, you shall have the right to execute the franchise agreement embracing the franchise which shall accompany the franchise disclosure document we tender to you and return said executed franchise agreement to us for counter execution. If you fail to return your executed franchise agreement by such time, then your right to acquire the subject franchise shall be deemed to have irrevocably terminated, and you shall have no further legal or equitable rights concerning the establishment of the competitive franchise within your Territory. In order for you to qualify for the exercise of these rights of first refusal to acquire such franchises, you must meet the then-current qualifications (financial and otherwise) for new franchisees for the subject franchise. The foregoing right of first refusal shall not apply to any franchise within your Territory of any competitive business or franchise network we acquire if such franchise was granted prior to the date of our acquisition. In no fashion shall the Option granted hereunder apply should we or any Affiliate otherwise engage in any of the activities authorized by Sections 3.05 or 3.06 of this Agreement.

Upon your exercise of the Option, and through the closing date of our purchase of the Assets of your Business, you agree that you shall effect absolutely no changes to your Business, and shall continue to operate such Business as before, provided that you may effect changes to the Business reflecting reasonable business decisions on your part which are prompted by demonstrable need (the reasonableness of your business decisions and the demonstrable need must be demonstrated to our reasonable satisfaction).

B. The purchase price for the Assets (the "Purchase Price") will be an amount equal to the greater of: (i) 4.5 times the earnings before interest, taxes, depreciation and amortization ("EBITDA") of the Business over the 12 full calendar months immediately preceding the end of the third month following the Operation Date of the Company Business; (ii) 4.5 times the average annual EBITDA of the Business during the 36 month period immediately preceding the end of the third month following the Operation Date of the Company Business; or, (iii) \$250,000. The Purchase Price will be adjusted by: (i) deducting long term liabilities including, without limitation, promissory notes, loans and capital leases extending over more than a 12 month period; (ii) adding or deducting amounts necessary to achieve Working Capital (defined below) of zero; (iii) deducting from annual EBITDA, if applicable, the difference between \$80,000 and any lesser sum (if any) paid to the General Manager of your Business as compensation for performing services in such capacity; (iv) adding to annual EBITDA, if applicable, the excess over \$80,000 of compensation paid to you and/or your Principal for serving as General Manager of your business; (v) adding to annual EBITDA, if applicable, the "fair market compensation" (as defined immediately hereafter) of you or any Principal who otherwise serves as an employee (but not General Manager) of your Business ("fair market compensation" being the recommended salary we suggest from time to time for the employee function at issue); (vi) adding back to annual EBITDA, if applicable, the annualized value of any documented non-cash compensation received by you or any Principal for each year during the period for which EBITDA is being computed (such as, by way of example, a motor vehicle used for personal use and insurance for such vehicle, but specifically excluding any and all travel and entertainment expenses, which are addressed

immediately hereafter); and, (vii) adding back to annual EBITDA imputed annualized compensation for travel and entertainment in the fixed amount of \$5,000.

In all instances, EBITDA will be determined in accordance with generally accepted accounting principles applied on a basis consistent with the Company's annual audited financial statements.

C. If the Purchase Price for your Business is an amount less than or equal to \$400,000, then 85% of such Purchase Price shall be paid to you in cash at closing and the balance (the "escrow amount") shall be placed in escrow, with an escrow agent of our choosing, with 50% of such escrow amount to be paid to you 90 days after closing and the other 50% of the escrow amount paid to you 180 days after closing.

If the Purchase Price exceeds \$400,000, then at our sole option the Purchase Price will either be payable in full in cash on the Closing Date (subject to the escrow requirement addressed immediately hereafter) or no less than 70% of the Purchase Price will be paid in cash on the Closing Date (again, subject to the escrow requirement addressed immediately hereafter) and the balance of up to 30% of the Purchase Price will be payable on a monthly basis over a period of not more than two years pursuant to a subordinated promissory note in form acceptable to the Company and the banks or other financial institutions providing finances to the Company. Interest on the principal amount outstanding under such promissory note will accrue at the London InterBank Offered Rate ("LIBOR") plus 3% and will compound annually. All of the cash payments identified in this paragraph shall be subject to a 15% escrow requirement, pursuant to which 15% of such cash payment will be deposited in escrow on the Closing Date, with an escrow agent of our choosing, with 50% of such escrowed amount to be released to you 90 days after the Closing Date and the balance of such escrowed amount released to you 180 days after the Closing Date, release of such escrowed funds dependent on the representations and warranties you make in the Asset Purchase Agreement being true and correct at all relevant times..

D. The term "Working Capital" means Current Assets minus Current Liabilities (as those terms are defined below).

E. The term "Current Assets" means the sum of the following assets of the Business on the Closing Date: (i) cash; (ii) accounts receivable relating to customer contracts for which installation has been completed and which have been outstanding for 90 days or less, valued as follows: 100% if outstanding less than 30 days, 90% if outstanding less than 60 days, 80% if outstanding less than 90 days, and zero if outstanding more than 90 days (any such accounts receivable outstanding more than 90 days shall be assigned to you, and you shall be free to collect and retain same in your discretion); (iii) Inventory (as defined below), including finished goods, valued at your actual cost for purchasing such items; (iv) work in process, excluding finished goods, valued at 33% of the contract value on the Closing Date; and (v) prepaid rent and other prepaid deposits. Current Assets will not include any advances or loans to employees, partners, officers, members and your and their affiliates. Accounts receivable will not include any executed customer contracts with respect to which installation has not been completed as of the Closing Date.

F. The term "Inventory" means all inventory of the Business, including raw materials, hardware, finished goods, supplies, service parts, vehicles, and purchased parts, inventory in transit as of the Closing Date, but excluding (i) furniture, fixtures and products in any showroom, (ii) items which are obsolete damaged or not otherwise saleable in the ordinary course of the Business within the 90 days preceding the Closing Date, (iii) mirror doors and deco doors not ordered for a customer contract in effect on the Closing Date, (iv) work in process (excluding finished goods), (v) inventory rejected or returned by a customer, and (vi) any classification of inventory none of which has been sold to a customer of the Business within the six month period preceding the Closing Date.

G. The term "Current Liabilities" means the sum of the following liabilities of the Business as of the Closing Date: (i) customer deposits relating to customer contracts for which installation has not yet occurred, (ii) accounts payable in the ordinary course of business, (iii) Accrued Liabilities (as defined in Section 3.06 H. below), (iv) promissory notes and loans payable within 12 months, and (v) accrued payroll and employee benefits.

H. The term "Accrued Liabilities" means (i) liabilities for goods delivered to or services performed for you and the Business prior to the Closing Date in the ordinary course of the Business and consistent with past practices for which you have not received an invoice or bill on or prior to the Closing Date; (ii) the *pro rata* portion (based upon the number of days elapsed in the month up to and including the Closing Date) of any services ordered by you for the Business in the ordinary course of the Business and consistent with past

practices which benefited the Business prior to the Closing Date and which will benefit us after the Closing Date; (iii) your accrued obligations and royalties through the Closing Date under this Agreement, including national advertising fund payments due and payable hereunder; (iv) sales, property, income or any other taxes with respect to the Business as of the Closing Date; (v) unpaid commissions and referral fees payable to salespersons with respect to completed customer contracts as of the Closing Date, for which Accounts Receivable attributable thereto has been outstanding for less than 90 days; (vi) rent or lease payments due and payable on or before the Closing Date with respect to real or personal property of the Business; (vii) payments owing with respect to utility services provided to the Business on or before the Closing Date; and (viii) any other accrued liabilities or expenses of the Business of any kind or nature; provided, however, that any accruals relating to your insurance policies of any type or nature will be excluded from the definition of Accrued Liabilities, and accruals, if any, as of the Closing Date relating to your payroll, payroll taxes and employees' vacation or other benefits will be excluded from the definition of Accrued Liabilities; (ix) or any liens relating to any of the foregoing.

I. Your rights under this Agreement will terminate effective on the Closing Date, with the exception of your post-termination and post-expiration obligations under this Agreement that by their nature will survive.

J. If we or any of our Affiliates own and/or operate a Company Business within your Territory and you do not exercise your Option to have us acquire the assets of your Business, then neither we nor our Affiliates shall in any fashion utilize any specific customer identities, or operating or financial data specific to your Business operations, for the benefit of such Company Business; solicit current employees of your Business to become employees of any Company Business; knowingly solicit customers of your Business (it being understood that general advertising, marketing, direct mail and other non-specific solicitations are not prohibited to be engaged in by a Company Business hereunder); or, otherwise use any information which is proprietary to your Business which is maintained in any database your Business maintains to which we have access.

4. TERM AND RENEWAL

4.01 **Term.** The term ("Term") of this Agreement may be for the initial term or a renewal term as set forth below and in either case will be five years, beginning on the Effective Date, unless this Agreement is sooner terminated in accordance with its provisions, except that if you are party to a currently effective CBD Franchising, Inc. Franchise Agreement and you are entering into this Agreement prior to the expiration of your currently effective CBD Franchising, Inc. Franchise Agreement, then the Term of this Agreement will be for the balance of the term of such current Franchise Agreement and, at the expiration thereof, you shall be offered the opportunity to enter into this form of Agreement for a renewal term of five years (such right to enter into this form of Franchise Agreement being limited to these circumstances).

CHECK AND INITIAL THE APPROPRIATE DESCRIPTION OF THE TERM OF THIS AGREEMENT:

- Your Initials** _____ **Our Initials** _____ **Initial Term**
- Your Initials** _____ **Our Initials** _____ **Renewal Term commencing on expiration of Franchise Agreement**

4.02 **Renewal Term.** Following the Term of this Agreement, you will have the right, but not the obligation, to enter into Renewal Agreements for additional consecutive terms of five years each (the "Renewal Terms"), if you have complied with the conditions and procedures for renewal in Sections 4.04 and 4.05 of this Agreement and if we have not determined to cease franchising in the United States of America (meaning that we have conclusively determined that we will not offer or sell, renew or extend any Closets By Design franchise anywhere within the Continental United States). The next Renewal Term will begin on the date that the Term of this Agreement expires. If we are not franchising in the United States, then: (i) we will give you (and every other Closets By Design franchisee whose Business is situated anywhere within the continental United States) notice of this fact promptly following our determination to cease franchising in the United States of America; (ii) this Agreement shall remain in full force and effect following your receipt of such notice of cessation of franchising, with each party hereto obligated to fulfill all obligations hereunder in every respect including, without limitation, your obligation to offer, sell and service those products and services which your Business offers and sells pursuant to this Agreement through the actual expiration date of this agreement or any extended expiration date (as provided below); (iii) if you receive our notice that we have determined to cease franchising in the United States of America within one year of the scheduled expiration date of this Agreement, then the term of this

Agreement shall be extended such that the new expiration date of this Agreement shall be that date falling on the first anniversary of your receipt of our notice (provided, however, that you shall be under no obligation to make any Continuing Royalty payments to us for Gross Revenues your Business receives after the scheduled date of expiration of this Agreement through the actual, extended date of expiration of this Agreement, as above provided); (iv) we shall have the absolute right, but not the obligation, to extend any such expiration date for a period of an additional 90 days to enable you to fulfill previously placed orders and perform any requested or necessary service to your customers (it being understood that you need not and shall not either advertise, offer or sell any Closets By Design products or services during any such further extended term); (v) your obligations to expend money on local advertising pursuant to Section 10.06 of this Agreement, your obligation to contribute to the Closets By Design National Promotion and Protection Fund pursuant to Section 10.06 (B) of this Agreement and your obligation to contribute monies to a regional advertising cooperative pursuant to Section 10.05 of this Agreement may, at your election, be eliminated during the 60 day period prior to the scheduled expiration of this Agreement (it being understood, however, that should you elect to cease advertising altogether during the 60 day period prior to scheduled expiration of this Agreement, then we or our designee may advertise in your Territory on behalf of any business whatsoever, whether directly competitive, identical or otherwise) (it also being understood and agreed to by you that, notwithstanding the foregoing, you must - - through the actual [not necessarily scheduled] date of expiration of this Agreement - - pay in full all Yellow Pages invoices or committed advertising contracts which are issued or come due at any time prior to the actual [not necessarily scheduled] date of expiration of this Agreement); (vi) notwithstanding any other provision of this Agreement to the contrary, in this precise circumstance, you shall be entitled to maintain copies of any customer lists and records which this Agreement otherwise obligates you to tender to us following the termination or expiration of this Agreement; (vii) you understand and agree that, in this circumstance, we or any Affiliate shall have the right following the termination or expiration of this Agreement to establish, open and operate businesses of any type or nature whatsoever, including businesses identical, nearly identical and/or competitive with the Business franchised hereunder; (viii) upon the actual (not necessarily the scheduled) date of expiration of this Agreement (but not upon termination for cause) or thereafter, neither we nor any successor of ours will enforce the post-term covenant not to compete set forth in Article 13 of this Agreement; and, (ix) you hereby stipulate that our determination to cease franchising in the United States of America shall be deemed to constitute "good cause" for our not renewing this Agreement and you shall not contend otherwise in any arbitral, judicial or administrative proceeding.

If we are still franchising in the United States of America but you elect not to renew this franchise by entering into a Renewal Agreement, then you hereby agree not to secure any new telephone number(s) for your Business without our prior written consent.

4.03 Redefinition of Territory Upon Renewal

If we determine that: (i) you are in default of any of your material obligations under this Agreement, or (ii) you breached your obligation, during any one year period during the term of this Agreement, and after being given notice and an opportunity to cure as provided in Section 10.06 of this Agreement, to expend those sums on advertising and promotion specified in such Section 10.06, then as an alternative to refusing to grant you a Renewal Agreement, we will be entitled, but not obligated, to redefine and reduce the Territory conferred hereunder in the Renewal Agreement upon written notice to you concurrent with our transmittal to you of the "Renewal Package" provided for below in Section 4.04 of this Agreement. We will exercise this right using the same criteria we use for other Closets By Design franchisees that are similarly situated.

4.04 Form and Manner of Renewals.

A. If we are franchising in the United States of America (as defined in Section 4.02), and if you wish to exercise your right to enter into a Renewal Agreement (as provided for in Section 4.02), you will do so by executing our then-current form of renewal franchise agreement (the "Renewal Agreement"). The Renewal Agreement will take the form of our then-current Franchise Agreement, modified as provided below. The Renewal Agreement will supersede this Agreement in all respects. The terms of the Renewal Agreement may differ from the terms of this Agreement, except that: (i) the boundaries of the Territory under this Agreement will remain the same (except under the condition described in Section 4.03 above) and (ii) the Continuing Royalty on renewal will be identical to that set forth in Section 5.02 A. below. You must exercise your renewal right under this Agreement in the following manner:

1. At least one year before the scheduled expiration date of the Term of this Agreement, we will furnish to you a package (the "Renewal Package") consisting of our then-current franchise disclosure document; "signature ready" copies of a Renewal Agreement ready for your

execution; and, a letter specifying the time within which such Renewal Agreement must be executed in order for you to effectively renew your Closets By Design franchise.

2. If you desire to renew your Closets By Design franchise, then no later than 30 days following your receipt of the aforementioned Renewal Package, we must receive from you your executed copies of the Renewal Agreement we previously furnished to you; your executed "Acknowledgment of Receipt" of the franchise disclosure document we furnished to you as part of the Renewal Package; and, your check made payable to us for the Renewal Fee (see Section 4.05 below). This 30-day period may be extended by a seven day "grace period" in your discretion.
3. If you do not perform any of the acts, execute any of the agreements or furnish any of the payments required by this Section 4.04 in a timely fashion, this will be considered your election not to exercise your right to enter into a Renewal Agreement; your right to renew will automatically lapse and expire without further notice or action by us; and, no further "grace period" other than that identified in the immediately preceding subparagraph will be afforded or will pertain under any circumstance. If this occurs, this Agreement will terminate at the end of the Term of this Agreement, subject to the post-termination and post-expiration provisions of this Agreement which by their nature are meant to survive.
4. If you have exercised your renewal right following procedures detailed in this Section 4.04 in all respects and have complied with all the conditions set forth in Section 4.05 of this Agreement on the date of expiration of the Term of this Agreement, then we shall promptly counter execute the Renewal Agreement previously executed by you and transmitted to us, and we will deliver to you one fully executed copy of such Renewal Agreement.

4.05 Conditions to Renewal. Your right to enter into a Renewal Agreement will be conditioned on your fulfilling all the following conditions:

1. At the time of your exercise of the right to enter into a Renewal Agreement and the commencement of the Renewal Term, you must have fully performed, be in compliance with and not be in default of all of your obligations under this Agreement, any amendments to this Agreement or replacement of this Agreement, the Manual and Supplements to the Manual, and any and all other agreements then in effect between you (or your affiliates) on the one hand and us (or our Affiliates) on the other hand.
2. Before the commencement of the Renewal Term, you must have refurbished and remodeled your Closets By Design Location and updated your equipment and supplies as we may reasonably require conforming to our then-current standards for new franchisees.
3. You must have satisfied all monetary obligations to us and our Affiliates and must have substantially timely met these obligations throughout the Term of this Agreement, and we may examine your books and records to verify compliance with this requirement anytime during normal business hours within 60 days of your renewal date.
4. You must have executed a General Release - Renewal in the form of Exhibit 6.
5. You must pay us a Renewal Fee of \$5,000.

4.06 Notice of Expiration. If applicable law requires us to give notice of expiration to you at a specified time before the expiration of the Term or any subsequent Renewal Term of this Agreement, and we have not done so, then the term of this Agreement will be extended on a month-to-month basis until we have given you the required notice of expiration and the required period before the expiration of the Agreement becomes effective has expired.

4.07 Time of the Essence. Time is of the essence with regard to Sections 4.04 and 4.05 and of this Agreement. That is, your timely performance of the acts required by Section 4.04 and your timely compliance with the conditions set forth in Section 4.05 are all of material importance and of the essence to your right to enter into Renewal Agreements with us.

5. PAYMENTS TO FRANCHISOR

5.01 Initial, Renewal and Territory Fees.

A. Initial Franchise Fee for Initial Term; Renewal Fee for Renewal Term.

1. If the Term of this Agreement is the initial term, the Initial Franchise Fee is \$20,000.
2. If the Term of this Agreement is a renewal term, the renewal fee is \$5,000.
3. The Initial Franchise Fee or renewal fee, as applicable, is paid in consideration of our execution of this Agreement; is payable upon your execution of this Agreement; and, will be fully earned when paid.

B. Territory Fee for Initial Term.

If the Term of this Agreement is the initial term, then you must pay a territory fee ("Territory Fee") in addition to the Initial Franchise Fee payable in accordance with Section 5.01 A. above. The Territory Fee is equal to the greater of (i) \$18,000 or (ii) \$1,000 for each increment or portion of 10,000 households in the Territory as shown on Exhibit 1 to this Agreement. The Territory Fee is paid in consideration of our execution of this Agreement; is payable upon your execution of this Agreement; and, will be fully earned when paid.

5.02 Continuing Royalty.

A. If the Term of this Agreement is the initial term, then in consideration of our granting you the franchise granted under this Agreement, you agree to pay us a Continuing Royalty equal to the greater of (i) 6.75% of your prior month's Gross Revenues, or (ii) \$3,000 per month. While the final Continuing Royalty is calculated monthly, we will make weekly withdrawals from your account in an amount we estimate to be that week's portion of the monthly Continuing Royalty. To the extent necessary, we will reconcile the weekly amounts we have withdrawn with the month's actual Continuing Royalty due on or before the 5th day of each calendar month.

B. Continuing Royalties are payable as provided in Section 5.06 B. below ("Reporting and Payment"). In the event a tax agency in your state requires us to remit taxes on Continuing Royalties paid by you or any other payments made to us by you, we reserve the right to require you to reimburse us up to the full amount of any such taxes remitted by us.

5.03 Marketing Development Fee.

If you are purchasing an unoccupied developed market area, you agree to pay us the market development fee set forth in Exhibit 1 to this Agreement. The Market Development Fee is consideration for the benefit of receiving a market that has already been developed. The Market Development Fee is determined based on a number of qualitative factors, including (without limitation): (i) the size of the market area and (ii) the extent of development of the subject market area. The Market Development Fee is payable upon your execution of this Agreement (unless you and we negotiate other payment terms) and will be deemed fully earned when paid,

5.04 Definition of "Gross Revenues"

"Gross Revenues" means all revenues and income from any source that you derive or receive from, through, by or on account of the operation of the franchised Business, whether received in cash, in services, in kind, from barter and/or exchange, on credit, or otherwise. You may deduct from Gross Revenues, to the extent that they have been included in your calculation of Gross Revenues, documented refunds, chargebacks, credits and allowances that you give in good faith to customers, and all sales, use or service taxes or similar taxes that you legally charge to customers (provided, however, that no fees paid to banks or credit card merchant services may be deducted from your Gross Revenues). You may deduct these taxes from the computation of "Gross Revenues" only if you: separately state the taxes when you charge the customers; remit the tax payments to the appropriate tax authorities in a timely manner; furnish to us an official receipt issued by the tax authorities for payment of the taxes within 30 days of payment, or any other verification of payment that we may reasonably consider acceptable; and, state in your required monthly report (see Section 5.06) the amount of all these taxes and the payments to which they relate. For the purpose of determining Gross Revenues, all barter and/or exchange transactions where you furnish services or products in exchange for goods or services to be provided to you by a vendor, supplier or customer (e.g., advertising exposure or other intangible consideration) will be valued at the full retail value of the goods and/or services to be provided to you.

5.05 Software Fees. As Section 8.07 provides, we will license you our proprietary Closets By Design management system software (the “CBD Manager Software”) to you. We will also furnish you with upgrades to the CBD Manager Software from time to time. For these services, you agree to pay us Software License Fees of \$300 per year and a Software Maintenance Fee of \$225 per month, both Software Fees payable quarterly promptly upon your receipt of our invoice. In addition to using our CBD Manager Software, you are required to use the AIM Sales Management Portal in connection with the operation of your franchised Business. Currently, we do not charge you a fee for you to use the AIM Sales Management Portal, but we reserve the right to charge you our then-current fee in the future. You are not authorized to use any other software system unless approved by us in writing.

5.06 Reporting and Payment

A. You agree to submit a monthly report to us for our receipt on or before the fifth day of each calendar month commencing with the first calendar month after the calendar month in which the Commencement Date (as defined in Section 8.01) falls. The monthly report will consist of a statement reporting all Gross Revenues for the preceding month in the manner and form we prescribe. You must sign the monthly report. We reserve the right to require you to file your monthly reports electronically. At the same time that you submit the monthly report, you agree to submit to us a statement, in a form we prescribe, reporting all barter and exchange transactions you entered into during the reporting period. You may only engage in barter and exchange transactions if you report each transaction to us as provided in this subsection and, for purposes of calculating Gross Revenues, you include the full retail value (and not the discounted price) of any products sold in a barter and exchange transaction. If we require you to file your monthly reports electronically, but for any reason the necessary electronic communications cannot take place – whether because our computer system is unable to receive your report or because your computer system is unable to transmit a report, or for any other reason – then you must ensure that we receive the report in the manner we otherwise direct by the date due. In addition, we have the right to require you to transmit electronically on a daily basis the data we require, in the form we require, in our Manual or otherwise. If you fail to submit your monthly Gross Revenues report when due (but no later than seven (7) days after the due date), then we will charge you a fee equal to \$250.

B. You owe us the Continuing Royalties and National Fund Contribution due for the prior month (or, as may be the case with the first payments after the Commencement Date, for the prior partial month) commencing with the first calendar month following the calendar month in which the Commencement Date falls. While the final Continuing Royalties and National Fund Contributions are calculated monthly, we will make weekly withdrawals from your account in amounts we estimate to be that week’s portion of the monthly Continuing Royalties and National Fund Contributions. To the extent necessary, we will reconcile the weekly amounts we have withdrawn with the months actual Continuing Royalties and National Fund Contributions due on or before the 5th day of each calendar month. We reserve the right to require the transmission of these and any other payments required under this Agreement by wire transfer or other form of electronic funds transfer. You will pay all costs of wire transfer or other form of electronic funds transfer.

C. You agree to report to us on a daily and other periodic basis, statistical and other information we require in the form and manner and at the times we require, including (without limitation) Gross Revenues received, other sales data, copies of your monthly bank statements, the amount of your local advertising expenditures, operating expenses, customer information, and other data as specified in our Manual or otherwise. If we require you to file your daily or other periodic reports electronically, but for any reason the necessary electronic communications cannot take place – whether because our computer system is unable to receive your report or because your computer system is unable to transmit a report, or for any other reason – then you must ensure that we receive the report in the manner we otherwise direct by the date due.

5.07 Payments to Us. In addition to all other payments under this Agreement, you agree to pay us (or our Affiliates) immediately upon demand:

1. The amount of all sales taxes, trademark license taxes and any other tax or levy whatsoever (however denominated) imposed on, required to be collected, or paid by us or our Affiliates (but not including any corporate income taxes imposed on us or our Affiliates) on account of services or goods we (or our Affiliates) have furnished to you through sale, lease or otherwise, or on account of collection by us of the Initial Franchise Fee or Renewal Fee (as applicable), Territory Fee, Continuing Royalties, National Fund Contributions or Software Maintenance Fees called for by this Agreement.

2. All amounts we advanced, or which we have paid, or for which we have become obligated to pay, on your behalf for any reason.
3. All amounts due to us (or our Affiliates), for products or services you purchased from us (or our Affiliates).

All payments due to us from you under this Agreement must be paid by check transmitted to our headquarters address, except that we reserve the right to require deposit of payments elsewhere and/or payment by wire transfer or other form of electronic funds transfer.

5.08 Delinquent Payments; Late Fee. Any payment which you owe us (or our Affiliates) but which we (or our Affiliates) have not received within 5 calendar days following the due date is delinquent. You agree to pay us (or our Affiliates) interest on any delinquent amounts due to us (or our Affiliates) under this Agreement and not timely paid at an annual percentage rate of 18% or the maximum interest rate permitted by law, whichever is less. In addition, you agree to pay us a late fee on any delinquent amounts of 5% of the amount due. If the total interest rate and late fee provided for in this Section exceeds the maximum interest rate allowable by law, then you need only pay us the maximum interest allowable by law.

To the extent any payment which you owe us (or our Affiliates) is 45 or more calendar days delinquent, you agree that we reserve the right to automatically withdraw the payments owed via electronic funds transfer in the same manner we are able to withdraw the Continuing Royalties and National Fund Contributions in accordance with Section 5.06 B. You will pay all costs of the electronic funds transfer.

You acknowledge that this Section 5.08 will not constitute agreement by us or our Affiliates to accept any payments after they are due, or a commitment by us or our Affiliates to extend credit to you or otherwise finance the franchised Business. You also acknowledge that if you do not pay all amounts when due under this Agreement, this will be a material breach of this Agreement which, unless you cure the breach as provided in Section 31, will give us the right to terminate this Agreement immediately upon notice to you.

5.09 Fixed Fee Inflation Escalator. We may adjust any fixed fee or other non-percentage monetary amount payable by you under this Agreement or any related Agreements in accordance with the increase in the Consumer Price Index over the previous 12 months upon not less than 30 days written notice to you, the "Consumer Price Index" being defined as the Consumer Price Index for All Urban Consumers, Service Group Only, 1992-1994=100, published by the Bureau of Labor Statistics of the U.S. Department of Labor (or the highest similar future index if this index becomes unavailable).

5.10 Application of Funds; No Accord or Satisfaction. If you are delinquent in the payment of any obligation to us (or our Affiliates) under this Agreement, or under any other agreement with us or any of our Affiliates, then we (or the Affiliate) may apply any payment from you to any obligation(s) due from you to us (or our Affiliates), at our sole option, whether under this Agreement or otherwise, and whether or not there is any contrary designation by you. No endorsement or statement on any check or payment or in any letter accompanying any check or payment or elsewhere will constitute or be construed as an accord and satisfaction.

5.11 No Withholding. You may not withhold, set-off or recoup payment of any Continuing Royalty, National Fund Contribution, Software Maintenance Fee, late charge or any other amount due to us or our Affiliates on the grounds of the alleged non-performance or breach of any of our (or our Affiliates') obligations under this Agreement or any related agreement, including agreements for the sale of products or services by us or our Affiliates to you.

6. SITE SELECTION REQUIREMENTS

6.01 Closets By Design Location

A. You may operate your franchised Closets By Design Business only from your Closets By Design Location. You may use the Closets By Design Location for no other purpose than the operation of the franchised Business. If we license you to operate more than one franchised Closets By Design Business, you may employ a single Closets By Design Location for all your Businesses, so long as the Closets By Design Location is within the Territory of one of your franchised Businesses and no more than one hour's driving time from the farthest boundary of each of your Territories, unless we otherwise permit in writing.

B. If you have suggested a Closets By Design Location which we have reviewed and consented to before the execution of this Agreement, then the Closets By Design Location will be set forth on Exhibit 1 to this

Agreement. If you have not suggested a Closets By Design Location which we have approved before the execution of this Agreement, then the following provisions will apply:

You agree to use your best efforts to find an acceptable Closets By Design Location within the Territory, using your own resources, skills and know-how. You further agree to comply with all our Closets By Design Location specifications, requirements and restrictions in our Manual or otherwise. The Closets By Design Location will be subject to our prior written review and consent, and our determination will be final. We may require you to submit maps, completed checklists, photographs, copies of proposed leases, diagrams of the premises with measurements and other information and materials which we may reasonably require to evaluate your proposed Closets By Design Location.

It is of the essence of this Agreement that you select a Closets By Design Location, obtain our prior written approval and execute a lease reviewed and consented to by us (or provide proof of ownership) for your Closets By Design Location within 90 days following the Effective Date. If you intend to own the Closets By Design Location, then you agree to furnish to us proof of ownership or an executed contract of sale within 90 days following our approval of the Closets By Design Location. We may (but need not) elect to extend these 90 day time frames.

If you do not secure a Closets By Design Location within the time limits and following the procedures specified in this Article 6, this will be a material and incurable breach of this Agreement which will give us the right to terminate this Agreement immediately on notice to you, with no opportunity to cure. If we terminate the Agreement for this reason, then all funds you paid us will be considered earned by us; we will have no obligation to refund the Initial Franchise Fee or Renewal Fee (as applicable), the Territory Fee or any other sums you have paid to us or our Affiliates; and you must immediately execute a General Release in the form of Exhibit 8 annexed hereto.

C. You understand that any advice we give you regarding site selection (whether as part of our System or Manual, in response to your proposals or inquiries, or otherwise); our proposal or suggestion of any Closets By Design Location; and/or, our exercise of our rights of inspection or review and consent, are not meant to be relied on or construed in any way as a representation, express or implied warranty, or any other indicia of the prospective profitability, viability or merit of any location.

6.02 Location Lease. Promptly following our written approval of a proposed Closets By Design Location, you agree to deliver to us a copy of any proposed lease or sublease for the Closets By Design Location and any proposed related documents. Any lease, sublease or other rental agreement for the Closets By Design Location (each, a "Lease") will be subject to our prior written review and consent, which we will not unreasonably withhold or delay. If we do not communicate our consent to or disapproval of a proposed Lease to you within 10 business days following our receipt of the Lease, the Lease will be considered approved.

A. If you will lease or sublease the Closets By Design Location:

1. You may not create any obligations on our behalf, grant any rights against us or agree to any other term, condition, or covenant which is inconsistent with the provisions of this Agreement or any related Agreement.
2. You agree to duly and timely perform all terms, conditions, covenants and obligations under the lease or sublease.

B. Except as otherwise provided in this Agreement, you may not assign, charge, encumber or transfer your Lease, or sublet all or any part of the Closets By Design Location, without our prior written approval. All Leases you enter into to secure the Closets By Design Location must contain provisions acceptable to us that provide:

1. After the termination or expiration of this Agreement for any reason, we will have the option for 30 days to cure any defaults within a reasonable period of time; at our election, either assume the obligations of and replace you as the lessee under the Lease, or to have another franchisee, licensee, joint venture partner or other designee of ours assume the obligations of and replace you as the lessee under the Lease; and, if we have assumed the obligations of and replace you as the lessee under the Lease, to reassign the Lease to another franchisee, licensee, joint venture partner or other designee of ours.

2. The lessor or sublessor will furnish to us written notice specifying any default and the method of curing the default and allow us 30 days after receipt of the notice to cure the defaults (except that if the default is the non-payment of rent, we will have only 15 days from receipt of notice to cure the default).
3. The lessor or sublessor will accept us or another franchisee, licensee, joint venture partner or other designee designated by us as a substitute tenant under the Lease upon notice from us that we are exercising our option, following the termination or expiration of this Agreement for any reason, for us or another franchisee, licensee, joint venture partner or other designee of ours to succeed to your interest in the Lease and/or to reassign the Lease to another franchisee following our assumption of obligations under the Lease.
4. The required provisions in (1) and (3) above are rights but not obligations for us to assume your rights and responsibilities under the Lease.
5. The lessor or sublessor acknowledges that: (i) you alone are responsible for all debts, payments and performances under the Lease before we or another franchisee, licensee, joint venture partner or other designee of ours takes actual possession of the premises; and (ii) neither we nor our franchisee, licensee, joint venture partner or other designee shall have any obligation to cure any past defaults committed by you, but we will assume all existing future obligations.
6. The Lease may not be modified or amended without our prior written consent, which we may not unreasonably withhold. The lessor or sublessor will promptly provide us with copies of all proposed modifications or amendments and true and correct copies of the executed modifications and amendments.
7. In the event that, following the termination or expiration of this Agreement for any reason, we exercise our option to either assume the obligations of and replace you as the lessee under the Lease, or have another franchisee, licensee, joint venture partner or other designee of ours assume the obligations of and replace you as the lessee under the Lease, then effective upon either such party's succeeding you as lessee under the Lease and taking occupancy of the Location, either we or such other party (as applicable) will indemnify you and hold you harmless for all obligations under the Lease, and any liabilities there under, which arise on or after such time as we or such other party replace you as lessee under the Lease and take occupancy of the Location. In no event shall this indemnification be deemed to apply to any liability related to the Lease or your occupancy of the Location which accrued or arose, prior to our succeeding you as lessee under the Lease and taking occupancy of the Location.

6.03 Government Approvals, Consents and Licenses. It will be your sole responsibility to promptly investigate the need for, seek and obtain all government and quasi-governmental approvals, consents and licenses required to open and operate the franchised Business. You undertake to use all possible efforts to obtain all required approvals, consents and licenses. We make no representation or warranty that you will be able to obtain all required approvals, consents and licenses. If you are unable to do so by the scheduled date of commencement of operations pursuant to Section 8.01, then either party will have the right to terminate this Agreement immediately upon notice to the other party. If either party terminates this Agreement for this reason, then all funds you paid us will be considered earned by us, and we will have no obligation to refund the Initial Franchise Fee or Renewal Fee (as applicable), the Territory Fee or any other sums you have paid to us or our Affiliates.

6.04 Relocation of Your Closets By Design Location. You may not relocate your Closets By Design Location to another location within the Territory without first obtaining our written review and consent to the new location, which we will not unreasonably withhold. You must make a written request for our consent at least 30 days before the desired date of relocation, unless prior notice is impractical because fire, flood, other Acts of God or other similar causes beyond your control compel you to relocate. Your notice must describe the reasons for the requested relocation and provide details concerning the proposed replacement location. Any relocation must be within your Territory.

We will notify you in writing of our consent to or disapproval of the proposed new location within 21 days after receiving your request. If we do not, then your proposed new location will be deemed consented to by us. In deciding whether to consent to the proposed location, we will exercise our reasonable business judgment, which may include consideration of the following (without limitation): the availability and relative desirability of alternative locations, proximity of the proposed location to existing and potential locations; expectations of increased or decreased market penetration; quality of the proposed location and the effect of the relocation on the Closets By Design System. If we disapprove a proposed new location, you may request an alternative proposed new location following the procedures described above.

If you relocate the franchised Business with our review and consent, the new location will be the "Closets By Design Location" of the franchised Business as that term is used in this Agreement. Any relocation will be at your expense. We may charge you for any costs we incur in connection with the relocation. All leases, subleases or other agreements that you enter into to relocate the Closets By Design Location must conform to the provisions of Section 6.02.

6.05 Furniture, Fixtures, Equipment, Signs and Decor. We will consult with you, to the extent we consider necessary, on the construction, equipping, furnishing and decoration of the Location. It will, however, be your sole responsibility to diligently design, construct, equip, furnish, decorate ready and open the Location for business. You must maintain a showroom at your Location and at any other sites in your Territory as we reasonably require to adequately service your Territory. Your Location and showroom(s) must conform to any specifications for furniture, fixtures, equipment and decor that we impose, in our Manual, or otherwise.

All exterior and interior signs used in connection with the franchised Business must conform to our sign criteria as to typeface, illumination, color, size, design and location. We must approve all signs in writing before installation or display.

7. DUTIES OF FRANCHISOR

7.01 Confidential Operating Manual. We will lend you one copy of our confidential operating manual (the "Manual") during our Initial Franchise Training. The Manual may be in the form of one or more of the following: one or more loose-leaf or bound volumes; bulletins; facsimiles; notices; videotapes; CD-ROMS and/or other electronic media; computer disks; online postings; e-mail and/or other electronic communications; or, any other such written memorializations. If you lose or destroy the Manual, we may require you to pay us on demand the sum of \$5,000 for the loan of a replacement Manual.

You agree to operate your Business in strict compliance with the operational systems, procedures, policies, methods and requirements prescribed from time to time in the Manual.

We retain the right to prescribe additions to, deletions from or revisions of the Manual (the "Supplements to the Manual"), all of which will be considered a part of the Manual. All the previous and subsequent references to the Manual in this Agreement will include all Supplements to the Manual. Supplements to the Manual will become binding on you as if originally set forth in the Manual, upon being delivered to you. You agree to immediately adopt and use the services, products, programs, materials, standards, specifications, policies, methods, procedures and techniques set forth in modifications or Supplements to the Manual. The Manual and any additions, deletions, revisions or Supplements to the Manual are material in that they will affect the operation of the franchised Business, but they will not conflict with or materially alter your rights and obligations under this Agreement.

You acknowledge that we are the owner of all proprietary rights in the Closets By Design System, the Manual and all Supplements to the Manual, and that you are acquiring no property or other right to them other than a license to use them and comply with them during the term of this Agreement. The Manual and all Supplements to the Manual will remain our property at all times. You promise that you, your agents, independent contractors, and employees will treat the Manual and the information contained in it as confidential; use all reasonable efforts to maintain this information as secret and confidential; at no time copy, duplicate, record or otherwise reproduce the Manual or Supplements to the Manual, in whole or in part; and, not make the Manual, Supplements to the Manual or information in them available to any unauthorized person. Upon the termination or expiration of this Agreement, you must return the Manual and all Supplements to the Manual to us, or at our direction obliterate or destroy them.

You agree to ensure at all times that your copy of the Manual and the Supplements to the Manual are current and up-to-date. If there is any dispute as to your compliance with the provisions of the Manual and any

Supplements to the Manual, the master copy of the Manual and any Supplements to the Manual maintained at our principal office will control.

We may post some of or the entire Manual and any Supplements to the Manual on a restricted Web site or intranet to which you will have access. If we do so, you agree to monitor and access the Web site for any Supplements to the Manual. Any passwords or other identifications necessary to access the Manual and Supplements to the Manual on a Web site will be deemed Confidential Information as defined in Section 12.01.

7.02 Initial Franchise Training for General Managers. Your General Manager (as defined in Section 8.05 below) must have attended and successfully completed an initial training program that we will provide (the "Initial Franchise Training"). We will determine the date of commencement, location and duration of the Initial Franchise Training and notify you of them.

You must pay a charge to us for training additional personnel no greater than \$1,000 per person, per day. You agree to pay all expenses incurred by your trainees and yourself (if an individual) in connection with training, including, but not limited to, salaries, transportation costs, meals, lodging and other living expenses.

If your General Manager or any other attendee you send to the Initial Franchise Training fails to successfully complete our Initial Franchise Training, then that person may re-enroll in another scheduled Initial Franchise Training, but we reserve the right to impose a reasonable charge, not to exceed \$1,000 per person per day, for each retraining attendee. You may not commence operations of your franchised Business until your General Manager has successfully completed the Initial Franchise Training.

Any General Managers you hire or appoint after the commencement of operation of the franchised Business must attend and successfully complete our next scheduled Initial Franchise Training. You must pay an additional charge to us for training replacement General Managers no greater than \$1,000 per person, per day. You agree to pay all expenses incurred by your replacement General Managers in connection with training, including, but not limited to, salaries, transportation costs, meals, lodging and other living expenses.

We will not pay any compensation for any services performed incidental to training by trainees in any training program. We reserve the right to determine the duration and subject matter of our training programs and the right to train any number of individuals from any number of franchised or non-franchised Closets By Design Businesses at the same time.

7.03 On-Site Training and Assistance. In addition to the Initial Franchise Training, we will provide a trainer at your Location for one to two weeks (at our option) of on-site training around the time of the Commencement Date, timing of this assistance to be determined in our sole judgment.

You may request additional on-site training or assistance at any time in accordance with all guidelines we may specify in the Manual or otherwise, or we may (in our sole discretion) determine that you require additional on-site training and assistance. We will not be obligated to provide on-site training or assistance, but if we elect to do so, we may impose a fee of \$750 for the 1st day and \$500 for each additional day we provide such additional on-site training and assistance, plus the costs of transportation, food and lodging for each such person, all payable in advance. The timing of all advice, consultation and training provided for in this Agreement will be subject to the availability of our personnel.

7.04 Field Support Services. Following the commencement of operation of your franchised Business, we may furnish to you the field support services that we alone consider advisable. Our representatives may render field support services on-site, off-site, by telephone; through electronic communications; or, through other communication devices. Field support services may include advice with respect to programs, procedures, guidelines, systems, specifications or techniques pertaining to the operation of your Closets By Design Business. The timing of all field support services will be subject to the availability of our personnel.

7.05 Consultation Services. If you request, we may offer you, for a fee, consultation services beyond the field support services described in Section 7.04 above. Our representatives may render consultation services on-site, off-site, by telephone, through electronic communications or through other communications modes, subject to scheduling availability. Consultation services may include specialized advice related to the operation of your Closets By Design Business; on-site reviews of your operations and the furnishing or retraining as needed; on-site retraining of your General Manager and other personnel; and, other specialized assistance as may be requested by you. You agree to pay us for any consultation services performed at your request on the terms, at the times and in the amounts that we set forth at the time of offer or provision, in our Manual or otherwise. The timing of all consultation services will be subject to the availability of our personnel.

7.06 Mandatory Annual Conferences. No more than once each year, we may conduct either a system-wide conference or a series of regional meetings for franchise owners to discuss Closets By Design business operations and other matters relating to Closets By Design Businesses. At least one of your Principals must attend each annual conference or regional meeting for your area. You agree to pay all related expenses of your attendees, including, but not limited to, transportation costs, meals, lodging and living expenses. We may charge you a fee for attending the annual conference or applicable regional meetings, not to exceed \$1,500 per attendee. The annual conference or regional meetings referenced in this sentence are in addition to any optional convention or sales conference we may conduct.

7.07 Staff Training Programs. We may make available to you, from time to time, optional staff training courses, seminars, conferences or other programs, at a location that we designate. On reasonable notice, we may require personnel from your franchised Business whom we designate to attend any such program if we deem the program to be relevant or appropriate to the effective operation of the System. We will charge no fees for any of these programs, but we reserve the right to do so. You agree to pay all related expenses of your attendees, including, but not limited to, transportation costs, meals, lodging and living expenses.

7.08 Optional Materials and Services That We May Offer. If we determine to offer to sell you any optional materials and services (directly, or through an Affiliate), and you, at your sole option, determine to purchase any of them, then, you must pay us (or our Affiliate) the prices that we, at our sole option, determine and set forth at the time of offer or sale, or we otherwise generally set forth in our Manual or otherwise. All such prices and any conditions of sale will be subject to change at any time.

7.09 Pricing. Because enhancing Closets By Design's interbrand competitive position and consumer acceptance for Closets By Design's products and services is a paramount goal of us and our franchisees, and because this objective is consistent with the long term interest of the Closets By Design System overall, we 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 you may charge customers for the goods and/or services offered and sold at your franchised Business; recommending retail prices; advertising specific retail prices for some or all products or services sold by your franchised Business, which prices you will be compelled to observe; engaging in marketing, promotional and related campaigns which you must participate in and which may directly or indirectly impact your retail prices (such as "buy one, get one free"); and, otherwise mandating, directly or indirectly, the maximum and/or minimum retail prices which your franchised Business may charge the public for the products and services it offers. We may engage in any such activity either periodically or throughout the term of this Agreement. Further, we 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. You understand that any maximum, minimum or other prices we prescribe or suggest may or may not optimize the revenues or profitability of your franchised Business. You agree to inform us of all prices you charge for services and products and any other information we require in our Manual or otherwise concerning the methods by which you establish your prices, and to promptly inform us of any new prices or pricing methodologies you establish.

7.10 Nature of Obligations. All our obligations under this Agreement are to you alone. No other party is entitled to rely on, enforce or obtain relief for breach of any of our obligations hereunder, either directly or by subrogation.

8. DUTIES OF FRANCHISEE

8.01 Commencement of Operations. You agree to commence the operation of your franchised Closets By Design Business within 120 days after the Effective Date of this Agreement (the "Commencement Date"). For purposes of this Agreement, the "Commencement Date" means the first day that you receive any revenues directly or indirectly related to the franchised Business, offer any services or products for sale at or from the franchised Business, or conduct any of the activities contemplated by this Agreement, whichever comes first. Your failure to commence operation of the Business within this period will be a material and incurable breach of this Agreement, which will give us the right to terminate this Agreement immediately upon notice to you, without opportunity to cure. We may, but need not under any circumstance, elect to extend the foregoing 120 day time frame.

8.02 Manner of Operation. Your franchised Closets By Design Business and Location must comply at all times with every provision of this Agreement, the Closets By Design System, the Manual and all Supplements to the Manual. You agree to conduct the activities and operations of your franchised Business and Location at all

times in compliance with the Closets By Design System, including all standards, procedures and policies we establish from time to time (in our Manual or otherwise), as though specifically set forth in this Agreement.

8.03 Modifications to the Closets By Design System. You agree that we may from time to time change the components of the Closets By Design System and the requirements applicable to the System, including, but not limited to, altering the products, programs, services, methods, standards, forms, policies and procedures of the System; abandoning the System altogether in favor of another system in connection with a merger, acquisition by or of us or other business combination; adding to, deleting from or modifying those products, programs and services which the franchised Business is authorized and required to offer; modifying the building, premises, equipment, signage, trade dress, decor, color schemes and uniform specifications and all other Closets By Design Location construction, design, appearance and operation attributes which you are required to observe under this Agreement; and, changing, improving, modifying or substituting the Proprietary Marks.

You agree to comply with any such modifications, additions, deletions, substitutions and alterations; provided, however, that the changes will not materially and unreasonably increase your obligations under this Agreement. No aggregate expenses during the Term of this Agreement less than or equal to \$25,000 per year (\$15,000 per year if your prior calendar year's Gross Revenues were less than or equal to \$1.8 million dollars) or \$125,000 over the entire Term of this Agreement (\$105,000 if your Gross Revenues never exceed \$1.8 million dollars within any calendar year during the Term of this Agreement), whichever is greater, will be considered material or unreasonable (it being understood that an expense of more than \$25,000 or \$15,000, as applicable, which is payable over more than one year, by way of example for machinery or equipment, shall be deemed reasonable so long as no one year's payment exceeds \$25,000 or \$15,000, as applicable, and further so long as the aforementioned Term aggregate limit is not exceeded). If your total expenses exceed that amount but we agree to reimburse you for the excess, then your expenses will not be considered material and/or unreasonable.

You agree to accept, use and effectuate any such modifications to, or substitution of, the elements of the System as if they were part of the System at the time that this Agreement was executed.

Except as provided in this Section, we will not be liable to you for any expenses, losses or damages you sustain as a result of any of the modifications contemplated by this Section. You promise not to commence or join in any litigation or other proceeding against us or any third party complaining of any such modifications or seeking expenses, losses or damages caused by such modifications.

8.04 Standards of Operation; Compliance with Laws, Rules and Regulations.

A. You agree to cause your franchised Business to give at all times prompt, courteous and efficient service to customers; perform work of the quality we reasonably expect of our franchisees in professional manner. You further agree that you and your franchised Business will be governed in all business dealings with members of the public by the highest standards of honesty, integrity, fair dealing and ethical conduct. Neither you nor your franchised Business may do anything which would tend to discredit, dishonor, reflect adversely upon, or in any manner injure the reputation of, our and our Affiliates' reputation, your reputation or the reputation of any other Closets By Design franchisee, entity or business.

B. You agree to operate the franchised Business in strict compliance with all applicable laws, rules and regulations of all governmental authorities; comply with all applicable wage, hour and other laws and regulations of federal, state and local governments; prepare and file all necessary tax returns; pay all taxes imposed on you related to the franchised Business (including without limitation, all employment, workers' compensation and sales taxes); obtain and keep in good standing all necessary licenses, permits and other required forms of governmental approval required for to offer and sell the services and products which now or in the future are part of the Closets By Design System; pay or cause to be paid prior to delinquency all taxes, fines, fees and/or assessments arising out of or in connection with the operation of the franchised Business and Closets By Design Location; and, otherwise be responsible for compliance, at your sole expense, with all governmental or quasi-governmental requirements, restrictions, duties and responsibilities. In the event you have any *bona fide* dispute as to your liability for taxes assessed, you may contest the validity of the amount of the tax in accordance with the procedures of the taxing authority or applicable law. However, in no event shall you permit a tax sale or seizure by levy of execution or similar writ or warrant, to occur against the premises of your franchised Business, your Closets By Design Location or any improvements thereon.

C. If at any time during the term of this Agreement you receive any complaint, claim or notice from any governmental or quasi-governmental agency alleging any failure to comply with any applicable law, rule or

regulation, you agree to provide us with a copy of the complaint, claim or notice within five days after you receive it. Furthermore, you must immediately notify us of any litigation, arbitration, disciplinary action, criminal proceeding or any other legal proceeding or action brought against or involving you, any person or entity affiliated with you, your franchised Business, or any of your agents, employees, owners, directors or partners. This notification must include all relevant details of any such proceeding or action and must comply with the requirements and procedures set forth in our Manual or otherwise.

8.05 Your Participation in the Operation of the Business; General Manager.

A. You agree that your Principals (as defined below) will personally and directly supervise the operation of the franchised Business, unless we otherwise permit in writing. "Principals" means any record or beneficial owner of capital stock if you are a corporation, any record or beneficial owner of any membership interest in you if you are a limited liability company, any general partner if you are a partnership and your sole proprietor if you are a sole proprietorship. You agree that your Principals will devote the amount of their time, attention and best efforts to the performance of your duties under this Agreement that is necessary for the proper and effective operation of the franchised Business. Your Principals' failure to do so will be a material breach of this Agreement that will give us the right to terminate this Agreement if such failure is not cured within 10 days following our issuance of a notice of default to you regarding such failure. If you are licensed to operate more than one Closets By Design Business, you agree that your Principals will devote the amount of their time and attention to the performance of your duties under this Agreement that is necessary for the proper and effective operation of the Businesses.

B. If you are an individual, you must either serve as or designate a General Manager. If you are an entity, then you must designate a General Manager. You must inform us in writing as to the identity of your General Manager and any successor General Managers. Each General Manager must receive our prior written approval, which will not be unreasonably delayed or denied. Your General Manager will have day-to-day management responsibility for the franchised Business, exercise on-premises supervision and personally participate in the direct operation of the franchised Business. The General Manager must devote all of his or her business time to the management of the Business. Engaging a General Manager for the franchised Business, does not relieve you (and your Principals) of your and their obligations under this Agreement (including, without limitation, your obligation to personally participate in the direct operation of the franchised Business on a full-time basis). The definition, duties, required hours and responsibilities of the General Manager will be set forth in our Manual. Each General Manager must complete to our satisfaction the Closets By Design Initial Franchise Training, under the terms and conditions specified in Section 7.02.

You must have at least one (1) General Manager on duty at the Closets By Design Location during all hours of operation.

You agree immediately to notify us of the termination of employment, disability or death of your General Manager. You must designate a successor or acting General Manager no later than ten days following the death, disability or termination of the predecessor General Manager. Each successor General Manager must receive our approval, possess any required credentials in our Manual, attend and successfully complete our next scheduled Initial Franchise Training (or, if none is scheduled, a special training program we conduct for the new General Manager) and complete any other reasonable training at the times we specify. This training will be at your expense. If you do not employ and train a successor General Manager, this will be a material breach of this Agreement, which, unless you cure the breach as provided in Section 31, will result in this Agreement being terminated immediately.

8.06 Requirements Concerning Products and Services.

A. Services and Products Sold by You

You agree to offer and sell all services, products and programs which are part of the Closets By Design System and all other services, products and programs which we in the future incorporate into the Closets By Design System. You are prohibited from offering or selling any service, product or program which is not a part of the Closets By Design System or which we delete from the System. You may not use the Closets By Design name or the Proprietary Marks for the benefit of any business other than the franchised Business. You may not conduct (or permit anyone else to conduct) any business other than the business contemplated by this Agreement at or from the Closets By Design Location without first obtaining our written consent, which we may withhold for any reason or for no reason.

If the Territory you are granted in accordance with Section 3.01 of this Agreement contains customers that were located in one of our former franchisee's territories, you agree, at your sole expense (which expense shall not exceed \$1,500 per warranty), to provide all warranty and service work for such customers related to products and services provided by the former franchisee to those customers.

B. Equipment and Opening Inventory

Within the timeframes that we specify, you must purchase the basic package of inventory and installation equipment necessary to operate the franchised Business (collectively, the "Basic Closets By Design Inventory and Equipment Package") from suppliers approved by us. The items comprising the Basic Closets By Design Inventory and Equipment Package vary by territory. An itemized list of these items will be provided to you at Initial Franchise Training.

C. Proprietary Products, Equipment, Materials and Services

To provide custom closet services, other customized organizer services and related products and services of the highest quality and in the most expeditious and cost-conscious manner, guarantee uniformity of concept and quality, and protect our trade secrets – which are of the essence to the Closets By Design System and this Agreement – you agree to purchase or lease certain proprietary products, equipment, materials and/or services from us, our Affiliates or our designees. Specifically, you agree to purchase from us, our Affiliates or our designees all metal extrusions for custom organizers, "legs" that support garage organizers; other proprietary components of Closets By Design custom organizers; and, all products, equipment and materials (collectively, the "proprietary products") and/or services (the "proprietary services") which now comprise, or in the future may comprise, a part of our System and which were developed by, are proprietary to or kept secret by us.

We (or our Affiliates or designees) will sell to you all proprietary products or services at the same price paid by other similarly situated franchisees. We (or our Affiliates or designees) may demand payment in full for any proprietary products or services (including, if we or our designee elects to arrange for shipment, estimated shipping charges) at the time you place an order and before the products are loaded for shipment or the services are rendered.

We (or our Affiliates or designees) will have no responsibility concerning shipment of proprietary products to you. We (or our Affiliates or designees) will sell you all proprietary products F.O.B. their place of manufacture or any other location we designate from time to time. If we (or our Affiliates or designees) arrange shipment of proprietary products to you, we (or our Affiliates or designees) will do so only as a gratuitous accommodation for your convenience. We (or our Affiliates or designees) will have no duty or responsibility regarding the selection or actions of any carrier. You waive any possible claim against us (or our Affiliates or designees) arising out of or related to the shipment of proprietary products or the selection of any carrier.

Your exclusive remedy and our (and our Affiliates' and designees') exclusive liability for all claims as to any products delivered under this Agreement or for delayed delivery or non-delivery of products, will be limited to the purchase price of the products (plus any shipment costs you paid for the products) or, at our (or our Affiliate's or designee's) option, the replacement of the proprietary products shipped to your Closets By Design Business at our (or our Affiliate's or designee's) expense. Neither we nor any of our Affiliates or designees will be liable for special, incidental, indirect or consequential damages, whether or not caused by or resulting from our negligence or that of our Affiliate or designee (as applicable).

We warrant that proprietary products that you purchase from us, our Affiliates or our designees meet our specifications. We, our Affiliates and designees neither make nor intend, nor authorize any agent or representative to make, any other warranties, express or implied, with respect to proprietary products delivered under this Agreement. We, our Affiliates and our designees expressly exclude and disclaim all implied warranties of merchantability and fitness for a particular purpose with respect to proprietary products delivered under this Agreement.

If you have committed an incurable default under this Agreement, then we, our Affiliates and designees will have no obligation to sell any proprietary or non-proprietary products, equipment or services to you; and, you will not, as a result, have a defense at law or equity based on impossibility of your performance or any claim against us or our designees.

D. Sources of Supply and Specifications

As detailed in our Manual, you must purchase certain required supplies, equipment, materials and services from suppliers we designate in writing; from suppliers you select and we approve; and/or, in accordance with our written specifications.

We agree to exercise our approval of suppliers reasonably, in accordance with the following procedure:

1. You must submit a written request to us for approval of the supplier;
2. The supplier must demonstrate to our reasonable satisfaction that it is able to supply a product or service to you meeting our specifications; and,
3. The supplier must demonstrate to our reasonable satisfaction that the supplier is in good standing in the business community with respect to its financial soundness and the reliability of its product or service.

We reserve the right to test, analyze, inspect or randomly sample the product or service of any supplier you propose at your expense, whether or not we approve or reject the supplier. We will give you written notice of our approval or disapproval within a reasonable time. If we revoke approval of a supplier, we will give you written notice.

We may from time to time provide you with specifications governing the minimum standards of non-proprietary products, services or equipment you procure from a third party (that is, from any party other than us or our Affiliates, or the designees of either), in our Manual or in other written notices we transmit to you. We may modify our specifications in writing from time to time. You agree to obtain our advance written approval, which approval we may withhold for any or no reason, prior to your purchase of any piece of manufacturing equipment with a cost exceeding \$5,000.

We may offer and sell to you any non-proprietary products and services that you are required to purchase at the prices we determine and set forth at the time of sale, in our Manual or otherwise. We reserve the right to earn a profit from selling you non-proprietary (or proprietary) goods and services. You will be under no obligation to purchase any non-proprietary goods or services from us.

We and/or our affiliates may derive revenue - - in the form of promotional allowances, volume discounts, commissions, other discounts, performance payments, signing bonuses, rebates, marketing and advertising allowances, free products, and other economic benefits and payments - - from suppliers that we designate, approve, or recommend for some or all Closets By Design Locations on account of those suppliers' prospective or actual dealings with your Location and other Closets By Design Locations. That revenue may or may not be related to services we or our affiliates perform. All amounts received from suppliers, whether or not based on your or other franchisees' purchases from those suppliers, will be our and our affiliates' exclusive property, which we and our affiliates may retain and use without restriction for any purposes we and our affiliates deem appropriate. Any products or services that we or our affiliates sell you directly may be sold to you at prices exceeding our and their costs.

We also reserve the right to direct that any supplier rebates, refunds, advertising allowances or other consideration payable or paid as a result of your purchases of non-proprietary goods, services or equipment be paid until further notice to the National Promotion and Protection Fund (to be expended as provided in this Agreement). If we do so, then you hereby acknowledge that you will not assert any interest in such monies.

E. System-wide Supply Contracts

To enhance the inter-brand competitiveness of the Closets By Design System; to enable the System to take advantage of mass purchasing and/or economies of scale; and, to guarantee uniformity of concept and quality, we may, at our sole option, enter into system-wide supply contracts with one or more vendors of products and/or services that company-owned and franchised Closets By Design Businesses are required to use, offer or sell (each, a "system-wide supply contract"). If we enter into or arrange for any system-wide supply contract, then immediately upon notification of this, you and all Closets By Design franchisees must purchase the specified products and/or services only from the specified vendor, unless you can reasonably demonstrate that the prices under any such system-wide supply contract are more than 10% higher than the market average for the subject product or service of equal or greater quality, durability and availability as under the system-wide supply contract supplied by manufacturers or vendors (as applicable) of equal or greater reputation for reliability, integrity and longevity as the manufacturer or vendor under the system-wide supply contract. However, if at the

time of our notification you are a party to a non-terminable pre-existing supply contract with another vendor for the product or service in question, then your obligation to purchase from our designated supplier will not begin until the scheduled expiration (or earlier termination) of your pre-existing agreement.

We make no representation that we will, in fact, negotiate or consummate any system-wide supply contracts or other exclusive supply arrangements or, if we do so, that you would not otherwise be able to purchase the same products and/or services at a lower price from another vendor. We reserve the right, at our sole option, to modify or discontinue any system-wide supply contracts or exclusive supply arrangements and/or to substitute designated vendors.

In addition, we reserve the right to require you to participate in any consumer financing programs we specify, whether in the Confidential Operations Manual or otherwise. In connection with such participation, you may be required to enter into a contract with our designated third-party financing supplier, in the form and upon the conditions such third-party supplier requires, and pay certain fees associated therewith.

F. Security Interest in the Collateral.

You grant to us a security interest in and to all accounts receivable, contract rights, equipment, vehicles, furniture, fixtures, general intangibles, insurance proceeds, inventory, files, merchandise, together with all accessories thereto (the "Collateral") in your possession and control and used by your Closet By Design Business as collateral for the payment of any obligation, liability or other amount owed by you or your affiliates to us or our affiliates under this Agreement or otherwise. In the event you or your affiliates fail to pay any amount owed to us or our affiliates or otherwise breach or default under the terms of this Agreement, at our option, we will be entitled to the immediate possession of all or the portion of the Collateral equaling the amount of your obligation to us or our affiliates and to all other remedies described in this Agreement or at law or in equity, without prejudice to any of our other rights or remedies under any other agreements or under other applicable laws or equities. You agree to execute any and all Uniform Commercial Code financing statements and all other documents and instruments deemed necessary by us to perfect or document the interests granted to the Collateral herein.

8.07 CBD Manager Software; Computer System.

A. You agree to use the proprietary Closets By Design management system software (the "CBD Manager Software") developed by us or on our behalf. You agree to execute, concurrently with the execution of this Agreement, our standard form Software License Agreement (Exhibit 3) and to obey the provisions of the Software License Agreement at all times. We will license the CBD Manager Software and any upgrades to you and provide maintenance upgrades for the Software Fees provided for in Section 5.05.

B. Before the commencement of operation of the franchised Business, you agree to procure and install, at your expense, computer servers (including, without limitation, a cloud-based server), hardware, software (including, without limitation, QuickBooks), wired and/or wireless internet connections and service, required dedicated telephone and power lines, "smart phone" automated customer purchase tracking facilities, AIM Sales Management Portal and other computer-related accessories, peripherals and equipment (the "computer system") that we require for the operation of the CBD Manager Software, as set forth in our Manual or otherwise. You agree to obtain high-speed communications access, such as broadband, digital subscriber line ("DSL") or other high-speed capacity that we require for your computer system. You also agree to maintain a functioning e-mail address for your Business.

You agree to use the CBD Manager Software in the operation and management of your franchised Business. You agree to provide all assistance we require to bring your computer system on-line with our headquarters computer at the earliest possible time and to maintain this connection as we require. You agree to input and maintain in your computer system all data and information which we prescribe in our Manual and otherwise at the times we require. We will not have independent access to your principal business computer and/or computer system; however, we have the right to: require you to transmit to us electronically on a daily basis data relating to the franchised Business conducted at or from your Closets By Design Location; retrieve from your computer system all information that we consider necessary, desirable or appropriate at the times we designate; and require you, at any time, upon notice, to grant us access to your business computer and computer systems. We will bear the telephone costs of this information retrieval. You must accurately, consistently and completely record, structure, capture and provide through the computer system all information concerning the operation of the franchised Business that we require, in the form and at the intervals that we require.

You also agree to install and use the AIM (Account Interaction Manager) sales management portal (the "AIM Sales Management Portal") in connection with the operation of your franchised Business. The AIM Sales Management Portal is a web-based portal that designers will use to communicate the status of every client interaction with your Store Location and CBD Manager. The AIM Sales Management Portal is intended to ensure that all appointments are delivered to designers at a designated time, and all outcomes are reported back to our Sales Management team in a timely fashion. Currently, we do not charge you a fee for the use of the AIM Sales Management Portal, but we reserve the right to do so. If we elect to impose a fee for your use of the AIM Sales Management portal, you will be required to pay our then-current fee which shall not exceed \$25 per user per month.

You agree, at your expense, to keep your computer system in good maintenance and repair. We may mandate that you add memory, ports, accessories, peripheral equipment and additional, new or substitute software. Following our testing and determination that it will prove economically or systemically beneficial to you and to us, you agree to install at your own expense the additions, modifications, substitutions and/or replacements to your computer hardware, software, telephone and power lines and other computer facilities as we direct, on the dates and within the times we specify in our Manual or otherwise.

You understand and agree that modes of computerization and communication are rapidly evolving and that, accordingly, we may require you at your expense to purchase, install and utilize in your Closets By Design Business and at your Closets By Design Location such hereafter developed modes of computerization, communication, media and/or interfaces as we, in our sole business judgment, determine to incorporate into the System. You shall do so at such time and in such manner as we designate, in our Manual or other written notices.

Notwithstanding the fact that you agree to obtain, use, maintain and modify your computer system according to our standards and specifications, you acknowledge and agree that you alone will have the complete responsibility for: (i) acquiring, paying for, operating, maintaining and upgrading your computer system; (ii) the manner in which your computer system interfaces with our and any third party's computer system(s); and, (iii) all consequences if your computer system is not properly operated, maintained and/or upgraded.

Upon termination or expiration of this Agreement, you must return all computer software, disks, tapes and other magnetic storage media, all the data and records maintained on your computers, and all hard copy printouts of same to us in good condition, allowing for normal wear and tear.

8.08 Test Products and Services.

We may from time to time offer you the option of providing Custom Organizer Services and related products or services to customers on a test basis (the "Test Products and Services") for the duration (the "Test Period") that we consider appropriate. If you accept an offer to participate, then you must offer the Test Products and Services to consumers for the duration of the Test Period according to the terms and conditions of this Agreement and our applicable standards and specifications; provided, however, that we may (at our option) designate maximum prices for any Test Products and Services subject to the provisions of Section 7.09 and, if we do, you agree to charge such maximum prices (or, in your sole discretion, lower prices). We may modify the Test Period at any time and may revoke your right to offer and provide Test Products and Services at any time on 30 days written notice to you. If you reject our offer to provide Test Products and Services, fail to accept an offer within the time period that we prescribe, or fail to maintain our standards and specifications with respect to providing Test Products and Services, then we will have the right (both during and after the Test Period) to provide, or grant another party the right to provide, the Test Products and Services to any customer and from any location. After the Test Period we may, at our option: (i) abandon the test and rescind your right to offer any or all of the Test Products and Services; (ii) adopt the Test Products and Services for the Closets By Design network and, pursuant to Section 8.06 (A) of this Agreement, require you to offer the Test Products and Services, requiring you to sign any reasonable documentation we may periodically require relating to the offering of the Test Products and Services, or (iv) continue to provide (or continue to allow, or grant rights to, other parties to provide) the Test Products and Services on a continuing basis if you previously declined to offer the Test Products and Services during the Test Period.

8.09 Adequate Reserves and Working Capital. You must at all times maintain adequate reserves and working capital sufficient for you to fulfill all your obligations under this Agreement and to cover the risks and contingencies of the franchised Business for at least three months. These reserves may be in the form of cash deposits or lines of credit. If you do not do so, this will be a material breach of this Agreement which, unless

cured as provided in Section 31, will give us the right to terminate this Agreement immediately upon notice to you.

8.10 Indemnification. You hereby agree that you will, at your sole cost, at all times defend us, our Affiliates, and the corporate affiliates, subsidiaries, successors, assigns and designees of each, and the respective directors, officers, employees, agents, attorneys, shareholders, designees, contractors and representatives of each (we and all others referenced above, the "Indemnitees"), and indemnify, reimburse and hold harmless us and the other Indemnitees to the fullest extent permitted by law, from all claims, losses, liabilities and costs (including, without limitation, reasonable attorneys' fees, expert fees, and other costs) incurred in connection with any judicial, administrative or arbitration action, suit, proceeding (including bankruptcy, insolvency, debtor/creditor or similar proceedings), claim, demand, investigation, or formal or informal inquiry (regardless of whether reduced to judgment) or any settlement which actually or allegedly, directly or indirectly, arises out of, is based upon, is a result of, or is related in any way to any element of your entry into this Agreement; your establishment, construction, ownership, opening and operation of your franchised Business, including any other business operating within or in relation to the Closets By Design Business which other business, if any, shall be subsumed within this paragraph's references to the franchised Business) and further including (without limitation) any personal, bodily or mental injury, death, property damage or loss, suffered by any customer, visitor, manager, operator, supplier, employee or guest of the franchised Business; crimes committed on or near any of the premises or facilities of your franchised Business or vehicles used by your franchised Business; all acts, errors, neglects or omissions engaged in by you, your contractors or subcontractors, as well as any third party, arising out of or related to the design, construction, conversion, build-out, outfitting, remodeling, renovation or upgrading of your franchised Business, whether or not any of the foregoing was approved by us; defects in any franchised Business you construct and/or operate, whether or not discoverable by you or by us; product recalls resulting from or related to your acts, errors or omissions; all acts, errors, neglects or omissions of you or the franchised Business and/or the owners, officers, directors, management, employees, agents, servants, contractors, partners, proprietors, affiliates or representatives of you and/or the franchised Business and/or the Closets By Design Location (or any third party acting on your behalf or at your direction), whether in connection with the franchised Business, the Closets By Design Location or otherwise, including (without limitation) any property damage, injury or death suffered or caused by any vehicle serving your franchised Business; any claim, however and wherever asserted, that we or our affiliates are the employer, joint employer or co-employer of you and/or your employees (including, without limitation, any claims against us for your violation of any federal, local or state labor and/or wage and hour laws, rules or regulations); third party claims against us arising from or related to your breach of the terms, restrictions and requirements of this Agreement (including, without limitation, your unauthorized use of the Proprietary Marks, violation of any applicable laws, codes, rules or regulations or failure to comply with Privacy Laws); your violation of Privacy Laws; all liabilities arising from your offer, sale and/or delivery of programs, products and/or services as contemplated by this Agreement; your offer, sale and/or delivery of securities, equity interests or other ownership interests in you or the franchised Business; all activities, conduct and representations which you may engage in connected to any actual or attempted assignment of any interest whatsoever in you or the franchised Business (or any entity which controls you or the franchised Business); and, any action by any customer of yours or visitor to your franchised Business or any other facility operated in conjunction with your franchised Business (collectively, an "Indemnification Claim").

As used herein, the phrase "claims, losses, liabilities and costs" includes all claims; causes of action; fines; penalties; liabilities; losses; employment liabilities; compensatory, exemplary, statutory or punitive damages or liabilities; costs of investigation; lost profits; court costs and expenses; attorneys' and experts' fees and disbursements; settlement amounts; judgments; compensation for damage to our reputation and goodwill; costs of or resulting from delays; travel, food, lodging and other living expenses necessitated by the need or desire to appear before (or witness the proceedings of) courts or tribunals (including arbitration tribunals), or government or quasi-governmental entities (including those incurred by Indemnitees' attorneys and/or experts); all expenses of recall, refunds, compensation and public notices; and, other such amounts incurred in connection with the matters described. All such losses and expenses incurred under this indemnification provision will be chargeable to and paid by you pursuant hereto, regardless of any actions, activity or defense undertaken by us or the subsequent success or failure of the actions, activity or defense.

Specifically excluded from the indemnity you give hereby is any liability associated with our or the other Indemnitees' willful misconduct or criminal acts (except to the extent that joint liability is involved).

You agree to give us written notice of any action, suit, judicial or administrative investigation, proceeding, claim, demand, inquiry or any other event that could be the basis for a claim for an Indemnification

Claim by any Indemnitee within three days of your actual or constructive knowledge of it. If any affected Indemnitee determines that it is in his, her, or, its best interest to do so, such Indemnitee may elect to designate counsel of its choosing to represent him, her, or it in relation to the indemnified claim and you agree to advance or reimburse any Indemnitee, upon the request of any Indemnitee, for the actual attorneys' fees and costs incurred by him, her, or it when such expenses are incurred by any Indemnitee. If we reasonably determine that your defense or other response to the indemnified claim is inadequate, at your expense and risk, we may elect to assume (but under no circumstance will we be obligated to undertake) the defense and/or settlement of the action, suit, proceeding, claim, demand, inquiry or investigation of the indemnified claim against any Indemnitee. In such event, we will keep you informed with regard to and shall discuss with you the defense or contemplated settlement of the indemnified claim against any Indemnitee. However, in no event will we be obligated to obtain your consent for any action related to the defense and/or settlement of the indemnified claim. You agree to advance or pay, at our option, our attorneys' fees, costs, and other expenses within 30 calendar days after demand. Our undertaking of defense and/or settlement of the indemnified claim against any Indemnitee will in no way diminish your obligation to indemnify us and the other Indemnitees and to hold them and us harmless.

We may, at any time we consider appropriate, offer, order, consent or agree to settlements or take any other remedial or corrective actions we consider expedient with respect to the action, suit, proceeding, claim, demand, inquiry or investigation if, in our sole judgment, there are grounds to do so. Under no circumstance will we or the other Indemnitees be required to seek recovery from third parties or otherwise mitigate their losses to maintain a claim against you. You agree that any failure to pursue recovery from third parties or mitigate loss will in no way reduce the amounts recoverable by us or the other Indemnitees from you. The indemnification obligations of this Section 8.10 will survive the expiration or termination of this Agreement.

8.11 Inspection and Operational Audit. You agree that we (or any of our authorized agents or representatives, including outside accountants or auditors) may at any time during normal business hours, with or without notice, enter the Closets By Design Location and any other facilities of the franchised Business, and/or visit any locations at which you are rendering or have rendered services to customers or are maintaining business records, to conduct an inspection and operational audit. This inspection and operational audit will determine compliance with this Agreement and with our policies, procedures, programs, standards, specifications and techniques as set forth in our Manual. Our representatives may examine and inspect the Closets By Design Location, the programs and services provided from or at the Closets By Design Location, the products and supplies contained in the Closets By Design Location, the condition of the Closets By Design Location and the computer records of the franchised Business maintained at the Closets By Design Location or at any other site, any papers, files or records located at the Closets By Design Location, and any other records pertaining to the franchised Business located elsewhere. Our representatives may examine, inspect and confer with your employees and customers and may videotape the Closets By Design Location's operations.

Following any inspection and operational audit, and subject to the other provisions of this Agreement, you agree, at your own expense, to incorporate into your Closets By Design Business any corrections and modifications we require to maintain the standards of quality and uniformity we prescribe, as quickly as is reasonably possible.

8.12 Corporate and Partnership Franchisee Requirements; Records

A. If you are a corporation, limited liability company or any variant (a "corporation"), you must comply with the following requirements (which will also apply to any corporation assignee of yours):

1. Furnish us with your Articles of Incorporation; Bylaws; other governing documents; list of officers, directors and shareholders (including number and percentage of shares held); and any other documents we may reasonably request, and any amendments to them.
2. Confine your activities to the operation of the franchised Business, and your governing documents provide that your activities are confined exclusively to the operation of the franchised Business.
3. Maintain stop transfer instructions against the transfer on the records of any equity securities, and not issue any securities on 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 with CBD Franchising, Inc., dated _____.

Reference is made to the provisions of this Franchise Agreement and to the Articles and Bylaws of this Corporation. This certificate is not transferable and is not subject to sale, assignment, pledge, mortgage, encumbrance, or transfer, by operation of law or otherwise, without the prior written consent of CBD Franchising, Inc.”

4. Maintain a current list of all owners of record and all beneficial owners of any class of stock, general or limited partnership interests, membership interests or similar interests in you, and furnish this list to us on request.

Your organizational documents may not be modified without our prior written consent, which shall not be unreasonably delayed or denied. No mortgage, charge, lien, encumbrance, assignment, pledge, transfer or other security interest in respect of any of your shares, capital stock, membership interests, equity interests or any other interest in the franchised Business may be created in favor of any person(s) or entity(ies) without our prior written consent, which shall not unreasonably delayed or denied. No shares of stock of you may be sold, assigned and/or transferred without our prior written consent, which shall not unreasonably delayed or denied. You agree to ensure that your Articles of Incorporation or Articles of Association, or any similar, related or pertinent organizational documents, expressly restrict the assignment, conveyance, sale or other transfer of any direct or indirect ownership interest in you, including, without limitation, your voting stock. Any unauthorized sale, transfer, assignment, encumbrance, pledge, mortgage, transfer or hypothecation of your stock or any other interest without the prior consent of us will give us the right to terminate this Agreement immediately upon notice to you.

B. If you are a partnership or proprietorship, you must comply, except as otherwise approved in writing by us, with the following requirements (which will also apply to any partnership or proprietorship assignee of yours):

1. Furnish to us a copy of your partnership agreement and any other documents that we reasonably request, and any amendments to them.
2. If we request, prepare and furnish to us a list of all your partners and proprietors.

C. If you are a limited partnership, the provisions set forth in subsection (A) above will apply to your corporate general partner.

D. If you are a corporation, partnership, limited partnership or proprietorship, you (and any corporate, partnership, limited partnership or proprietorship assignee) must promptly notify us in writing of any change in any of the information specified in this Section 8.12 or in any document referred to in this Section.

8.13 Testimonials and Endorsements. You agree to permit us (or any of our authorized agents or representatives) to communicate in any manner with your customers to procure customer testimonials and endorsements of the services or products furnished by you, the Closets By Design System and any related services or products. You agree to cooperate with us in procuring testimonials and endorsements. You agree that we will be free to make whatever use of testimonials and endorsements that we determine, and that we will owe you absolutely no direct or indirect compensation or other duty as a consequence of our use.

8.14 No Statements by You. You agree to make no statements or comments without our prior written approval to any media representative or any other third party (except for persons considering purchasing a Closets By Design franchise) relating to the contents of this Agreement, to us or to any of our Affiliates.

8.15 Trade Accounts. You agree to maintain your trade accounts in a current status and to seek to promptly resolve any disputes with trade suppliers. If you do not maintain your trade accounts in a current fashion, we may pay any or all of the accounts on your behalf, after first confirming with you that there is no legitimate dispute related to any such outstanding trade account, but we will have no obligation to do so. If we pay any account on your behalf, then you agree to immediately repay us as provided by Section 5.06, and your failure to do so will be material default under Section 17.06 of this Agreement.

8.16 No Conflicting Agreements. During the term of this Agreement, you may not be party to any contract, agreement, mortgage, by-law provision, lease or restriction of any type that may conflict with, or be breached by, the execution, delivery, consummation and/or performance of this Agreement.

8.17 Product Records. You agree to maintain, for at least six years, complete and accurate records of all Closets By Design products sold by you in sufficient detail to enable us to conduct an effective recall of products

if there is a recall of any of the products by us. You agree to cooperate with and assist us in effective any such recall, including promptly contacting any customers that we reasonably desire to be contacts and promptly communicating to those customers the information or instructions we reasonably desire you to transmit relating to the recall. We will pay, or reimburse you, for the reasonable costs of effecting the recall, including any shipping costs related to returning recalled Closets By Design products to us and replacing recalled the products with new Closets By Design products at our expense. However, you will be responsible for paying all costs and expenses incurred by us or you in connection with recalls resulting from or related to your acts or omissions. Upon the termination or expiration of this Agreement, you agree to promptly turn over all product records to us.

8.18 Terrorism. You represent and warrant that neither you, nor any entity or individual having an ownership interest in you; nor any affiliate of either yours; nor any officer, director, employee, contractor or servant of any of the foregoing, has in the past, currently does or will in the future support terrorism; provide money or financial services to terrorists; is engaged in terrorism; is on the current United States government list of organizations that support terrorism; has been engaged in or been convicted of fraud, corruption, bribery, money laundering, narcotics trafficking or other crimes; and, that all of the foregoing individuals are eligible under applicable United States Immigration laws to travel to the United States for training or any other purpose. You further agree that you will not hire, retain, employ or otherwise engage the services of any individual or entity in contravention of the Patriot Act; any law, rule or regulation pertaining to immigration or terrorism; or, any other legally prohibited individual or entity.

8.19 Variance of Standards and Terms. You acknowledge that because complete and detailed uniformity under many varying conditions may not be possible or practical, we reserve the right, as we may consider in the best interests of all concerned, to vary standards for any System franchisee based on the timing of the grant of the franchise, the peculiarities of the particular Territory or circumstance, density of population, business potential, population of trade area, existing business practices or any other condition which we consider important to the successful operation of the franchisee's business. You will have no right to require us to disclose any variation to you or to grant you the same or a similar variation under this Agreement.

You further agree that we will have the right to grant franchises using the Closets By Design System and the Proprietary Marks under terms that may differ materially from the terms of this Agreement, so long as the different provisions are due to the franchise being granted at materially different times or other non-arbitrary distinctions. For this reason, our obligations and rights with respect to our various Closets By Design franchisees may from time to time differ materially from the terms of this Agreement, without in any way altering or affecting the provisions of this Agreement. You will have no right to require us to disclose any variation to you or to grant you the same or a similar variation under this Agreement.

8.20 Cobranding. We may determine from time to time to incorporate in the System programs, products or services which we either develop or otherwise obtain rights to, which are offered and sold under names, trademarks and/or service marks other than the Proprietary Marks and which your Closets By Design Business, along with some or all other Closets By Design Businesses, will be required to offer and sell. This activity, referred to as "cobranding", may involve changes or additions to the Proprietary Marks and may require you to make modifications to your Closets By Design Business's premises and the furniture, fixtures, equipment, signs and trade dress of your Closets By Design Location. If we give written notice to you that we are instituting a cobranding program, you agree promptly to implement that program in your Closets By Design Business at the earliest commercially reasonable time and to execute any and all instruments required to do so.

8.21 Intellectual Property You Develop. You hereby permanently and irrevocably assign to us, in perpetuity throughout the world, any and all rights and interests (including intellectual property rights and interests) to any and all of the following which is developed by you, or on your behalf, if developed in whole or in part in connection with your franchised Business or Closets By Design Location: all programs, products or services; all variations, modifications and/or improvements on programs, products or services; your means, manner and style of offering and selling programs, products and services; management techniques or protocols you may develop (or have developed on your behalf); all layout schematics and design elements; all sales, marketing, advertising and promotional programs, campaigns or materials developed by you or on your behalf; and, all other intellectual property developed by you or on behalf of your franchised Business. Except to the extent prohibited by applicable law, codes, rules or regulations, you waive, and will cause each of your employees or independent contractors who contributed to System modifications and/or improvements to waive, all "moral rights of authors" or any similar rights in such modifications and/or improvements. We may authorize ourselves, our affiliates and/or other franchised Businesses to use and exploit any such rights which are

assigned to us hereunder. The sole consideration for your assignment to us of all of the foregoing rights shall be our grant of the franchise conferred upon you by this Agreement.

8.22 Credit Cards and Other Modes of Payment. You agree to become and remain a merchant for any credit cards and/or debit cards which we may specify in our Manual or otherwise. You also agree to use and accept mobile payments from any mobile payment service (including, without limitation, Apple Pay, Google Pay, PayPal, Venmo and Zelle) that we may specify in our Manual or otherwise. Further, you agree to maintain the creditworthiness required of each of these credit card or debit card (or other mode of payment) issuers; to honor these cards and payment methods for credit purposes; and, to abide by all related regulations and procedures that we and/or the credit card and/or debit card issuer prescribes. Further, you agree that, at your sole expense, you shall at our direction and by the time we specify purchase, install and utilize such equipment, facilities and personnel necessary to enable now or hereafter developed alternative modes of customer payments (beyond cash, credit cards and debit cards). Such alternative modes of payment may include, by way of examples only, "smart phone" payment transactions and automated "smart phone" (or other) customer purchase tracking / payment transactions.

8.23 Compliance with Security Protocols. You agree to assure all communication connections (of whatever form, wireless, cable, internet, broadband or other) and access to financial information, especially credit card information, is at all times kept secure in a manner which is in compliance with all legal requirements and, particularly, with all security requirements of the issuing credit card companies. You further agree to hold us and the other Indemnitees (as defined in Section 8.10) harmless from any and all claims and liabilities related to your failure to do so. In addition, at your cost, you agree to provide us with a written report of verification from a specialist approved by us confirming compliance with the obligations imposed by this Section and any other proof of such compliance that we may reasonably require.

8.24 Privacy and Data Protection. You will: (i) comply with all applicable international, national, federal, provincial, state, or local laws, codes or regulations that regulate the processing of information that can be used (alone or when used in combination with other information within your control) to identify, locate or contact an individual or pertains in any way to an identified or identifiable individual ("Personal Information") in any way, including, but not limited to, national and state data protection laws, laws regulating marketing communications and/or electronic communications, information security regulations and security breach notification rules ("Privacy Laws"); (ii) comply with all standards, specifications, requirements, criteria, and policies that have been and are in the future developed and compiled by us that relate to Privacy Laws and the privacy and security of Personal Information; (iii) refrain from any action or inaction that could cause us to breach any Privacy Laws; (iv) do and execute, or arrange to be done and executed, each act, document and thing we deem necessary in our business judgment to keep us in compliance with the Privacy Laws; and (v) immediately report to us the theft or loss of Personal Information (other than the Personal Information of your officers, directors, shareholders, employees or service providers). You must also comply with payment card industry ("PCI") standards, norms, requirements and protocols, including PCD Data Security Standards.

8.25 Closets By Design Business Vehicle. You must purchase or lease a vehicle that meets our minimum specifications for use in connection with the operation of your franchised Business to transport the tools, equipment, supplies and materials that you may need for closet installations.

9. INSURANCE

9.01 Required Insurance Coverage. We impose and prescribe minimum standards and limits for certain types of required insurance coverage, in our Manual or by other written notice to you. You agree that we may modify the required minimum limits of insurance coverage from time to time by written notice to you, through Supplements to the Manual or otherwise. Upon delivery or attempted delivery of this written notice, you agree to immediately purchase insurance conforming to the newly established standards and limits we prescribe.

A. Within 30 days following our execution of this Agreement, you agree to purchase at your own expense, and maintain in effect at all times during the term of this Agreement, the following categories of insurance coverage in forms and through insurance companies satisfactory to us:

1. Broad form comprehensive general liability coverage and broad form contractual liability coverage satisfactory to us of at least \$1,000,000 per occurrence and \$3,000,000 aggregate. This insurance may not have a deductible or self-insured retention of over \$5,000.

2. Fire and Extended Coverage Insurance on your Closets By Design Location and property in an amount adequate to replace them in case of an insured loss.
3. Business Interruption Insurance in sufficient amounts to cover, for a period of four months following the interruption of your Business, the rental of your Closets By Design Location; Continuing Royalty, National Fund Contributions and Software Maintenance Fees which would have been due were it not for the interruption (calculated on the basis of the average monthly amount of each such payment paid or payable by your Business over the twelve months preceding the interruption of your Business but provided that the Continuing Royalty component of this sum need not exceed \$100,000); maintenance of competent personnel; utilities; any and all debt obligations of your Business; and, lease payments for vehicles, machinery and equipment utilized by your Business. Your obligation to pay Continuing Royalties, National Fund Contributions and Software Maintenance Fees in the amounts specified in the preceding sentence will not be suspended or relieved by the occurrence of any event of the type set forth in Section 19.01 (“Unavoidable Delay or Failure to Perform [Force Majeure]”).
4. Motor vehicle liability coverage, including coverage of owned, non-owned and hired vehicles, with minimum limits of liability in the greater of (a) the amount required by all applicable state and federal laws, or (b) \$1,000,000 for each person killed or injured, and, subject to that limit for each person, a total minimum liability of \$2,000,000 for any number of persons injured or killed in one accident, and a minimum limit of \$300,000 for injury, destruction or loss of use of property of third persons as the result of any one accident.
5. Workers’ compensation and employer’s liability insurance (in statutory amounts), unemployment insurance and state disability insurance (as required by governing law), for your employees.
6. In connection with any construction, refurbishment or remodeling of the Closets By Design Location, builders’ and/or contractor’s insurance (as applicable) and performance and completion bonds in forms and amounts acceptable to us.
7. Insurance coverage of such types, nature and scope sufficient to satisfy your indemnification obligations under Section 8.10 of this Agreement (including, without limitation, insurance coverage to indemnify us from any claims alleging your violation of federal, state or local labor and/or wage and hour laws, rules or regulations).

B. The insurance coverage that you acquire and maintain, as set forth in subsection (A) of this Section 9.01, must:

1. Name us and the other Indemnitees identified in Section 8.10 as Additional Insureds and provide that the coverage afforded applies separately to each insured against whom claim is brought as though a separate policy had been issued to each insured (except for the insurance coverage provided in subsection 9.01(A)(5) above).
2. Contain no provision that in any way limits or reduces coverage for you if there is a claim by any one or more of the Indemnitees.
3. Extend to and provide indemnity for all obligations assumed by you under this Agreement and all other items for which you are required to indemnify us under this Agreement.
4. Be primary to and without right of contribution from any other insurance purchased by Indemnitees.
5. Provide, by endorsement, that we are entitled to receive at least 30 days prior written notice of any intent to reduce policy limits, restrict coverage, cancel or otherwise alter or amend the policy.

You agree not to reduce the policy limits, restrict coverage, cancel or otherwise alter or amend these insurance policies without our specific advance written consent.

If there is a claim by any one or more of the Indemnitees against you, you must, upon our request, assign to us all rights which you then have or thereafter may have with respect to the claim against the insurer(s) providing the coverage described in this Section 9.01.

9.02 Purchase of Insurance on Your Behalf. If you fail to purchase insurance conforming to the standards and limits we prescribe, we may (but we are not required to) obtain the insurance necessary to meet these standards on your behalf, through agents and insurance companies that we choose. If we do this, then you must pay for this insurance and immediately pay the required premiums or reimburse us for the premiums. Nothing contained in this Agreement will impose any duty or obligation on us to obtain or maintain any specific forms, kinds or amounts of insurance on your behalf.

9.03 No Undertaking or Representation. Nothing in this Agreement may be considered our undertaking or representation that the insurance that you are required to obtain or that we may obtain for you will insure you against any or all insurable risks of loss that may arise out of or in connection with the operation of the franchised Business. We advise you to consult with your insurance agent and other risk advisors regarding any types, amounts or elements of insurance coverage beyond those specified herein which may be prudent to obtain.

9.04 Certificates of Insurance. You agree to promptly provide us with Certificates of Insurance evidencing the required coverage no later than ten days before the date that the franchised Business will commence operations and, thereafter, at least 30 days prior to the expiration of any such policy. All certificates must evidence proper coverage as required by this Agreement and the Manual. Attached to each certificate shall be a copy of the endorsement amending any clause in the subject policy which relates to other insurance and confirming that all coverage is primary insurance and that our insurance (and the insurance of the other Indemnitees identified in Section 8.10 above) is applicable only after all limits of your policy(ies) are exhausted. You agree to renew all insurance policies and documents, and on renewal, to furnish a renewal Certificate of Insurance to us before the expiration date of the policy in question. We may at any time require you to forward to us full copies of all insurance policies.

9.05 Notice of Claims and Demands. You agree to notify us of all claims or demands against us, you, the franchised Business, the Closets By Design Location within three days of your receiving notice of any such claim or demand. You also agree to respond to all claims within the time required by law, rule or regulation. In addition, you agree to cooperate with us (or our designee) in every way possible to defend you and us against all claims made by employees, customers or other third parties. You agree to make all appearances we consider necessary at administrative or other hearings to present or reinforce these defenses.

9.06 Failure to Purchase Insurance or to Reimburse Us. If you fail to purchase or maintain any insurance required by this Agreement or you fail to reimburse us for our purchase of any required insurance on your behalf, your failure will be a material and incurable breach of this Agreement which will give us the right to terminate this Agreement immediately upon notice to you, with no opportunity to cure.

10. ADVERTISING

10.01 Advertising Standards. For the purpose of this Agreement, the term "advertising" is defined to mean any and all advertising, identification and promotional materials and programs of any type or nature whatsoever including (but not limited to) print and broadcast advertisements; direct mail materials; catalogues; brochures; advertising specialties; World Wide Web/Internet pages or other communications by computer network or computer "bulletin boards"; World Wide Web/Internet "banner ads" and other advertising material on the World Wide Web/Internet; stationery; business cards; press releases; signs; posters; displays; leaflets; newspaper and magazine advertisements and inserts; promotional mail outs; general mailings; telephone greetings, messages and voicemail accessible by customers or other third parties; promotional material on videotape, CD-ROM or other electronic media; promotional literature; and, any other material or communication which we denominate as "advertising", in our Manual or otherwise.

You may only use advertising which we have either furnished or approved in writing in advance, as provided in Section 10.02 below. Neither the fact that we furnish the material, approve of the material, nor the material itself, will directly or indirectly require us to pay for any advertising, identification or promotion.

You agree to conduct all advertising which uses the Proprietary Marks or refers in any way to the franchised Business in a dignified manner, and in a manner calculated to avoid fraud, deception, misrepresentation and/or embarrassment, shame, ridicule, disparagement or liability of any type or nature

whatsoever accruing to us, you, the franchised Business, the Closets By Design System, the Closets By Design Location or other Closets By Design franchisees. You agree to conform all advertising to the standards, specifications and requirements specified in writing by us, in our Manual or otherwise.

If we learn that you have breached the provisions of this Section 10.01, we will notify you in writing of the facts which we believe have given rise to the breach. If you do not cure a non-willful or unintentional breach of this Section 10.01 within ten days following delivery of this notice (or, if cure cannot reasonably be accomplished within ten days, if you do not immediately commence cure within such time and conclude cure as swiftly as possible thereafter, but in no event later than the next applicable advertising cycle), or if you commit a willful or intentional breach of this Section 10.01, then we may terminate or remove any unauthorized advertising at your expense, and will also be entitled to terminate this Agreement unilaterally and immediately upon notice to you.

10.02 Submission of Proposed Advertising. As Section 10.06 provides in full, you agree to fulfill certain minimum local advertising requirements. Except for advertising materials, programs and campaigns furnished to you by us, you agree to submit to us for approval, before use or dissemination, copies of all proposed advertising (as broadly defined in Section 10.01 above). You may not, without our prior written consent, advertise in any medium we have not previously approved in writing or use any advertising outlet through which we maintain a system-wide advertising program (e.g. Val Pak, Money Mailer and other outlets we identify from time to time). Additionally, you may not, without our prior written consent, engage any third-party marketing firm or consultant or disclose our advertising strategies or data to anyone under any circumstance. Our approval of any materials, mediums, marketing firms, marketing consultants and/or advertising outlets may be withheld for any or no reason. If we do not respond within fifteen business days following our documented receipt of your proposed advertising material, this will constitute approval. Our grant or denial of approval by us under this Section 10.02 will not give rise to any liability on our part, and you will not assert claims against us alleging any such liability.

10.03 Telephones; Yellow/White Page Advertising. You agree to install the number and type of telephone lines and the type of answering or voicemail system (if any) required by us in our Manual or otherwise. You also agree to provide us with a list of all telephone numbers used in connection with the franchised Business, including, without limitation, all employee land-line, cell phone and any other telephone numbers used, via any technology, in connection with the operation of the franchised Business.

You agree to list your Closets By Design Business in all alphabetic directories ("White Pages") serving your Territory and advertise your Business continually in the primary classified directories ("Yellow Pages") serving your Territory under headings designated by us in our Manual or otherwise. We may annually furnish to you demographic information and recommendations regarding which Yellow Pages directories in your Territory you should advertise in for the coming year, based on competitive and economic factors. You agree to procure, place and pay for all your Yellow and White Pages advertising. We may specify the size, style and content of your Yellow Pages advertising.

If we request, you agree to include the addresses and telephone numbers of other Closets By Design Businesses in the body of your Yellow Pages advertisements and as additional lines in White Pages listings. You agree to show each Business so listed as equal in importance. Each Business advertised in a joint Yellow Pages ad will share equally in the cost of procuring, placing and paying for the joint ad. The listed Businesses will pay the cost of the extra lines containing the addresses and phone numbers of other Closets By Design Businesses in White Page advertisements.

10.04 Administration of the Closets By Design National Promotion and Protection Fund. As provided in Section 10.06 below, you agree to pay us a National Fund Contribution which, combined with the contributions made by all other Closets By Design franchisees, will constitute the Closets By Design National Promotion and Protection Fund (or the "Fund"). You will send these contributions directly to us as provided by Section 5.06(B) above. We or our designee will administer the National Promotion and Protection Fund as follows:

A. We will direct all advertising programs with sole control over the creative concepts, materials and media used in the programs, and the placement and allocation of advertising. You acknowledge that the Fund is intended to further general public recognition and acceptance of the Proprietary Marks for the benefit of the Closets By Design System. You further acknowledge that we and our designees undertake no obligation in administering the Fund to make expenditures for you which are equivalent or proportionate to your contributions, to ensure that any particular franchisee benefits directly or *pro rata* from the placement of advertising, or to

insure that any advertising impacts or penetrates your Territory. The Fund is not a trust and we are not a fiduciary with respect to the Fund.

B. The Fund may be used to meet any and all costs of administering, directing, preparing, placing and paying for national, regional or localized advertising (including, without limitation, the cost of preparing and conducting television, radio, magazine, newspaper and World Wide Web/Internet advertising campaigns and other public relations activities) and employing advertising agencies to assist in these activities, including fees to have print, broadcast and/or World Wide Web/Internet advertising placed by an agency and all other advertising agency fees. In addition, the Fund may be used for the supplementation of regional advertising efforts, including areas with few or no Closets By Design franchises; annual, regional or other conferences, seminars and training sessions; for completion of faulty or abandoned work of Closets By Design franchisees; the defense, settlement or prosecution of legal, arbitral or administrative actions or proceedings by or against us or Closets By Design franchisees which in any fashion relates to, contests, challenges or involves our ownership of the Proprietary Marks, our or your right to use and display same, the goodwill associated with same and/or any infringement of same (including, without limitation, any action or proceeding which is likely to injure the reputation or goodwill of the Closets By Design franchise System or the Proprietary Marks and/or litigation to protect the Proprietary Marks), provided, however, that while such Fund expenditures shall be permissible in connection with such actions or proceedings we commence against, or are commenced against us by, terminated, expired or former CBD franchisees, under no circumstance shall Fund expenditures be permissible in connection with actions or proceedings we commence against, or are commenced against us by, any then-current CBD franchisee; reimbursement to us for the costs of organizing national conferences and other special events; and, loans to authorized Closets By Design Regional Advertising Cooperatives.

C. We need not maintain the sums paid by franchisees to the Fund or income earned from the Fund in a separate account from our other funds, but we may not use these amounts for any purposes other than those provided for in this Agreement. No interest on unexpended Fund moneys will be imputed for your benefit or payable to you. We retain an administrative fee equal to 15% of all amounts received by the Fund to reimburse costs and pay our overhead related to the administration or direction of the Fund and advertising programs for franchisees including, without limitation, conducting market research; preparing marketing and advertising materials; working with advertising agencies, advertising placement services and creative talent; preparing and maintaining, and paying third parties for, the preparation and maintenance of World Wide Web pages and sites; other activities related to advertising and promotion via the Internet and/or other public computer networks; and, collecting and accounting for assessments for the Fund and preparing statements of Fund receipts and expenditures. This administrative fee is exclusive of any advertising agency fees that the Fund must expend to secure the services of an advertising agency or to have print or broadcast advertising placed by an agency. On or before March 31 of each year, if you request this in writing, we will deliver to you a statement of receipts and expenditures of the aggregate Fund relating to the preceding calendar year, certified to be correct by one of our officers.

D. We expect that we will usually expend most contributions to the Fund for advertising purposes during the fiscal year when the contributions are made. However, we will have the right to accumulate contributions for one or more years to pay for special advertising or promotional projects that may require a larger expenditure than could be made on the basis of a single year's contributions. If we expend less than the total sum available in the Fund during any fiscal year, we will expend the unused sum during the following fiscal year(s). If we expend an amount greater than the amount available in the Fund in any fiscal year (in addition to any sum required to be expended because we did not expend all the sums in the Fund during the preceding year), we will be entitled to reimburse ourselves from the Fund during the next fiscal year for all excess expenditures made during the preceding fiscal year.

E. Although the Fund is intended to be of perpetual duration, we maintain the right to terminate the Fund. We will not terminate the Fund, however, until we have expended all money in the Fund for advertising and promotional purposes.

F. Closets By Design Businesses owned and operated by us or our Affiliates will contribute to the Fund only as specifically provided in Section 10.06 (G) of this Agreement.

G. We reserve the right to use any media, create any programs and allocate advertising funds to any regions or localities in any manner we consider appropriate in our business judgment. The allocation may include rebates to individual franchisees of some or all of their National Fund Contributions for local advertising expenditures if, in our judgment, our national or regional advertising program or campaign cannot effectively advertise or promote in certain regions or communities. If we determine that the total National Fund

Contributions collected from all Closets By Design franchisees and company-owned Closets By Design Businesses is insufficient to sustain a meaningful regional or national advertising campaign, we may rebate all or a portion of the Fund contributions to franchisees and our (or our affiliates') company-owned Closets By Design Businesses on a pro rata basis. Franchisees must expend any rebate on the types of local advertising and media that we determine. All rebate advertising expenditures must be documented to us in a monthly rebate advertising expenditure report form which we will furnish in our Manual or otherwise.

H. The Fund will not be used for any activity whose sole purpose is the sale of franchises. However, the design and maintenance of our website, as well as the creation and placement of advertising and marketing (whether via print, electronic, radio, etc.), for which Fund monies may be used, may, without violating the provisions of this Agreement, include information and solicitations for prospective franchisees and public relations and community involvement activities which may result in greater awareness of the Closets By Design brand and the franchise opportunity.

10.05 Regional Advertising Cooperatives. We may, from time to time, establish, change, merge or dissolve regional advertising cooperatives for a geographic area that encompasses two or more Closets By Design Businesses (each a "Regional Advertising Cooperative"). We will furnish to you written notice of the establishment of any Regional Advertising Cooperative for your Territory. The notice will specify the date you are to begin contributions and the amount of the contributions. Contributions will be calculated as a percentage of Gross Revenues (as defined in Section 5.04 above). Your contributions to a Regional Advertising Cooperative will not be less than 1% nor more than 2% of your Gross Revenues, unless the maximum contribution is changed by a vote of two thirds of franchisee Cooperative members in accordance with the terms of the Bylaws of the Cooperative. Any Regional Advertising Cooperative will be governed by Bylaws of the Cooperative, except as modified to conform to the laws of any specific jurisdiction.

The Regional Advertising Cooperative may expend its funds for any or all of the following purposes: (i) development of advertising ideas and concepts; (ii) development of market research and merchandising programs; (iii) preparation of advertising campaigns; (iv) development of promotional ideas and strategies; (v) preparation of collateral creative materials; (vi) preparation of advertisements; (vii) placing and paying for regional marketing and advertising; (viii) planning, negotiating, contracting and trafficking all media programs; (viii) employing advertising agencies to assist in these activities and securing other technical and professional advice in connection with the above; (x) other public relations; and, (xi) administration of the Cooperative, including legal and accounting services. It will not be a requirement that expenditures made by a Regional Advertising Cooperative be proportionate to your contributions or those of any other franchisee.

Your failure to make any required payments to any Regional Advertising Cooperative will be a material breach of this Agreement which, unless you cure the breach as provided in Section 31, will result in this Agreement being terminated immediately.

10.06 Required Advertising Expenditures; Closets By Design National Promotion and Protection Fund; Local Advertising

A. You agree to make the required expenditures on national and local advertising provided for in this Section 10.06. "Local advertising" means the local advertising and promotional activities that we specify in our Manual (or otherwise) or approve or approve in advance pursuant to Section 10.02. With respect to Local advertising, you must conduct advertising that reaches the entire Territory and not just a portion or portions of the Territory.

B. You agree to pay us a contribution to our Closets By Design National Promotion and Protection Fund (the "National Fund Contribution") equal to 2.25% of your franchised Business' prior month's Gross Revenues. While the final National Fund Contribution is calculated monthly, we will make weekly withdrawals from your account in an amount we estimate to be that week's portion of the monthly National Fund Contribution. To the extent necessary, we will reconcile the weekly amounts we have withdrawn with the month's actual National Fund Contribution due on or before the 5th day of each calendar month. Your National Fund Contributions will count towards your satisfying the advertising expenditure requirements set forth in subparagraphs C and D below. Your National Fund Contributions will be expended as provided for in Section 10.04 above. The remainder of required advertising expenditures set forth in subparagraphs C and D below must be spent on local advertising.

C. Beginning two weeks before the required Commencement Date as specified in Section 8.01 (the "Advertising Date") and throughout the term of this Agreement, you agree to expend each year on local advertising for your franchised Business and National Fund Contributions a sum not less than the greater of:

(i) the minimum monthly advertising expenditures applicable to your franchised Business specified in Exhibit 1-A hereto (the number of households licensed to your franchised Business being specified in Exhibit 1 to this Agreement);

(ii) 16% of your prior calendar year's Gross Revenues if such Gross Revenues were less than \$2 million dollars, 14% of your prior calendar year's Gross Revenues if such Gross Revenues were between \$2 and \$7 million dollars, or 12% of your prior calendar year's Gross Revenues if such Gross Revenues exceeded \$7 million dollars, in each instance divided by 12 or,

(iii) an amount equal to your prior calendar year's total advertising expenditures multiplied by 108% and divided by 12, provided, however, that

(x) this number shall be capped at 23% of your prior calendar year's Gross Revenues, if they were less than or equal to \$3 million dollars, or 20% of your prior calendar year's Gross Revenues if they exceeded \$3 million dollars (the term "Gross Revenues" being defined in Section 5.04 of this Agreement), and

(y) this subparagraph (iii) will not apply if (1) in each month of such prior calendar year your monthly local advertising expenditure exceeded the required minimum monthly advertising expenditure applicable to your franchised Business in Exhibit 1-A by 15% if your Territory has fewer than 500,000 households; by 25% if your Territory has between 500,000 and 1,000,000 households; by 35% if your Territory has between 1,000,001 and 1,500,000 households; or, by 40% if your Territory has 1,500,001 households or more; or, by 35% if your Territory has 1,500,001 households or more and your prior calendar year's gross revenue exceeded \$6 million dollars, and (2) in each month of the succeeding calendar year your monthly local advertising expenditure equals or exceeds the applicable above-specified percentage excess over the minimum monthly local advertising expenditure of your franchise business required by Exhibit 1-A hereto.

D. If you operate Businesses in two or more contiguous Territories under separate Franchise Agreements, then the total combined households of the Territories will be utilized for measurement of compliance with this Section 10.06.

E. On or before January 15th of each year during the term of this Agreement, and at any other times that we may require, you agree to furnish to us copies of all statements, invoices and checks issued during the preceding year evidencing the expenditure of the required sums for local advertising. You further agree furnish to us an accurate accounting of all expenditures for local advertising and promotion in the previous calendar year, at the same time that you submit the annual financial statements required by Section 11.01 below.

F. If franchisees owning 2/3 of all Closets By Design franchises agree from time to time in writing to special assessments for specifically-designated advertising or promotional activities, you agree to pay us the special assessments, in the amount and by the date so approved by the franchisees in each case; provided, however, that no such special assessment may be merely an increase in the National Fund Contribution in name or substance, but rather must be intended and expended for specifically designated advertising and/or promotional activities for a special purpose. These special assessments are in addition to, and do not count towards, the advertising requirement set forth above. In addition, we may define regional groupings of franchisees for the purposes of making special assessments for designated advertising or promotional activities (including, without limitation, placing group advertisements in newspapers and magazines). If, from time to time, the franchisees owning 2/3 of all Closets By Design franchises of such a regional grouping agree in writing to such a special assessment, then you agree to pay the special assessment so approved to us or, if we so instruct, the third party provider of the advertising or promotional activity. It is understood that in no instance shall any Business operated by us or any Affiliate of ours be deemed to be a "franchisee" entitled to vote on, agree to or approve any of the activities addressed herein.

G. Company-owned Closets By Design Businesses operated by us or our Affiliates are not required to make any contributions to the Closets By Design National Promotion and Protection Fund. However, in connection with any national or regional print advertising engaged in by the Fund from which Company-owned Businesses operated by us or our Affiliates will benefit, such Businesses owned and operated

by us or our Affiliates will pay the amount of their *pro rata* share based on distribution of the subject print advertising in geographic areas served by such Company-owned Closets By Design Businesses. Further, in connection with any photographic media paid for by the Fund for use in CBD catalogues or sales aid materials, we shall reimburse the Fund our proportional share of such expense, "proportional share" defined in this instance as the percentage of total system-wide CBD gross revenues (that is, the aggregate gross revenues of all Closets By Design Businesses operated by us, our Affiliates and our franchisees) attributable to such Businesses which we and/or Affiliates operate.

H. You will have six months after we furnish you with a written Notice of Default in accordance with the terms of Section 21.01 of this Agreement to cure any default under this Section 10.06, "cure" for this purpose only defined as achieving compliance with the advertising expenditure requirements of this Section 10.06 by the conclusion of such six month cure period. Following your third such default at any time following the Effective Date of this Agreement, regardless of cure, we shall have the right (but not the obligation) alternatively to: (i) terminate this Agreement immediately upon notice to you, with no further opportunity being afforded to you to cure such default, or (ii) redefine and reduce the Territory upon written notice to you. The default, cure and termination provisions of this Section 10.06 shall supersede the general default/cure/termination provisions of Section 17.03 of this Agreement, provided, however, that the balance of Article 17 of this Agreement shall apply in full.

10.07 Merchandise Materials

We may, from time to time and in our sole business judgment, produce and provide to you (or have our 3rd party designated vendor produce and/or provide to you) certain merchandising materials identifying the System and to support national promotions, such as branded memorabilia and other brand-relevant merchandise (collectively, "System Merchandise"). We or our third-party vendor will invoice you for this System Merchandise and you agree to pay for the System Merchandise (including but not limited to the cost of shipping and insurance). Upon reasonable request, we will provide you with documentation of the costs of this System Merchandise.

11. RECORDS, AUDITS AND REPORTING REQUIREMENTS

11.01 Financial Statements

A. No later than 30 days following the end of each calendar quarter during the term of this Agreement, you agree to furnish to us, in a form we approve, a statement of the franchised Business's profit and loss for the quarter and a balance sheet as of the end of the quarter, together with an electronic copy of your CBD Manager database in the form we require. You must certify these statements to be true and correct. If you fail to submit your quarterly financial statements when due (but no later than thirty (30) days after the due date), then we will charge you a fee equal to \$500.

B. No later than 90 days following the end of each of your fiscal years during the term of this Agreement, you agree to furnish to us, in a form we approve, a statement of the franchised Business's profit and loss for the fiscal year and a balance sheet as of the end of the fiscal year, prepared on a compilation basis and certified to be true and correct by you.

C. The financial statements required above must be prepared in accordance with generally accepted accounting principles, including all disclosures required under those principles.

D. No later than 30 days following your filing of the annual tax returns of the franchised business, you agree to furnish to us exact copies of the tax returns, including federal, state and any local income tax returns, together with a certificate from an independent certified public accountant that all Social Security payments, taxes and fees required to be paid by you to any governmental agency or entity have been paid, and that if you are a corporation, there is no reason to believe that your corporate status has been impaired.

E. We agree to maintain the contents of the Schedules C (or equivalent portion) of your tax returns in strict confidence and will not disclose them to any third party without your express written consent. However, you authorize us to disclose information derived from the above financial statements and other financial data we obtain from you, including without limitation, in our franchise disclosure document and/or promotional literature and presentations), so long as such disclosure is on a "blind basis" which does not (except as may be required by law or practical necessity) individually identify you or your Business.

11.02 Financial Records and Audit.

A. You agree to record all revenues received by you or the franchised Business and all expenditures (including, without limitation, expenditures in satisfaction of the minimum local advertising requirements of Section 10.06). You further agree to keep and maintain adequate records of these revenues and expenditures, and to maintain and preserve accurate books, records and tax returns, including related supporting material (such as cash receipts, and credit and charge records) for the franchised Business for at least three years. We may specify, in our Manual or otherwise, the forms (electronic and/or otherwise) that you will be required to use in recording the revenues and expenditures of the franchised Business. You agree to keep and preserve for three years the types and classes of records (electronic and/or otherwise) that we require in our Manual or otherwise, and all business, personnel, financial and operating records (electronic and/or otherwise) relating to your Closets By Design Business. If you do not maintain the required records, this will be a material and incurable breach of this Agreement that will give us the right to terminate this Agreement immediately upon notice to you, with no opportunity to cure.

B. We and/or our agents (who may be outside accountants and auditors), designees and/or employees will have the right, at any time, upon at least twenty four (24) hours prior notice, during normal business hours to enter your Closets By Design Location and any other premises from which the Business is conducted to inspect, audit and, at our expense, make copies of all records including, but not limited to, the following: books of accounts; bank statements; cash or other receipts; checkbooks; documents; records; sales and income tax returns (federal, state, foreign and, if applicable, city); and, your files relating to programs, services and products sold, business transacted and expenditures relating to the Business. These files must include (without limitation) your operating records; bookkeeping and accounting records; customer lists; customer job orders; operating records; operating reports; correspondence; general business records; your copy of the Manual (as amended); invoices; payroll records; journals; ledgers and your files; memoranda and other correspondence; contracts and all sources and supporting records used to prepare reports and forms which you are required to submit to us under this Agreement, including the books or records of any corporation, partnership or proprietorship which owns the franchised Business. You agree to make any of these materials available for examination at your premises.

C. If we cause an audit to be made for any period and the audit reveals that you understated the Gross Revenues in your monthly reports to us by any amount, then you agree to immediately pay us the additional amount payable as shown by the audit, plus interest at the highest rate permitted by law or 18%, whichever is lower.

If an audit reveals that you understated the Gross Revenues on your monthly reports to us by 5% or more for any month within the period of examination, or for the entire period of examination, when compared to your actual Gross Revenues, or it takes eight or more hours for our representative to organize your records so that they can be audited, then in addition to paying the additional amounts due and interest as calculated above, you agree to immediately pay us the full cost of the audit for the entire period of examination.

If an audit reveals an understatement by you of 8% or more for any month within the period of examination, or for the entire period of examination, then in addition to paying the additional amounts due, interest as calculated above and the full cost of the audit for the entire period of examination, your understatement will be a material and incurable breach of this Agreement which will give us the right to terminate this Agreement immediately upon notice to you, with no opportunity to cure.

D. Except as (i) required by law, (ii) specifically in authorized in Section 11.01(E) above, or (iii) as may be necessary for us to enforce our rights under this Agreement, we agree to not intentionally disclose all specific customer identities or operating or financial data specific to your Business operations, which we may obtain in the course of inspecting or auditing your books and records pursuant to the authority vested in us by this Section 11.02.

12. CONFIDENTIAL INFORMATION

12.01 Restriction on Use of Confidential Information. You agree to use and permit the use of our Confidential Information (as defined below) solely in connection with the operation of the franchised Business. You further agree that you will never – during Term of this Agreement or any subsequent Renewal Term of this Agreement, or at any time after this Agreement expires or terminate, or your rights of under this Agreement are assigned – divulge or use any Confidential Information for the benefit of any other person, corporation, partnership, proprietorship, association, or other entity, nor will you directly or indirectly permit the disclosure of, imitate or aid any such third party to imitate any of the Confidential Information.

“Confidential Information” is defined as information, knowledge, trade secrets or know-how concerning your or our systems of operation, programs, services, products, customers, practices, materials, books, records, manuals, computer files, databases or software. Confidential Information includes (without limitation) all information, knowledge, know-how, techniques and information that we, our Affiliates, or their officers, contractors, employees and/or designees, designate as confidential.

Our “Confidential Information” also includes, without limitation, all of the following even if developed by you or on your behalf in conjunction with or related to the franchised Business: products, merchandise, goods, equipment, programs, and/or services used or sold by your Business; your means, manner and style of offering and conducting retail transactions in, at and from your Closets By Design Location; any business products and services developed for the franchised Business (including, without limitation, any computer software programs or templates); all intellectual property created for, adopted by or purchased for the franchised Business; all lists, records, job orders, identifying data and other information concerning, relating to or identifying the customers of your franchised Business; and, all sales, marketing, advertising and promotional programs and campaigns developed by you or on your behalf. You agree that any such developments are and will remain our sole property, and you further agree to turn over all such Confidential Information to us upon termination or expiration of this Agreement.

You understand that, as of the date of execution of this Agreement, Confidential Information also includes the following (without limitation): the Closets By Design System and all services, products, equipment, technologies, policies, standards, requirements, criteria and procedures that now or in the future are part of the Closets By Design System; our Manual; Supplements and amendments to the Manual; our Templates; all our and our Affiliates’ construction patterns for custom closets and home or office organization structural plans; all procedures, systems, techniques and activities employed by us or by you in the course of offering and selling custom closet services, other customized organizer services and related products and services from or at the franchised Business and at customer work sites; product designs; compilations of products; product lists; customer lists price book lists; all pricing paradigms established by us or by you; all of our and/or your sources (or prospective sources) of supply, and all information pertaining to same (including, without limitation, wholesale pricing structures); the computer and hardware and software utilized by us and you; all information pertaining to our and/or your advertising, marketing, promotion and merchandising campaigns, philosophies, materials, specifications and procedures; computer network Web site(s), and all information posted on or received at the Web site(s); all our instructional materials; quality assurance programs; supervision systems; recommended services; record keeping, bookkeeping and accounting systems and materials; revenue reports; activity schedules; job descriptions; records pertaining to customers; business forms; product and service order forms; general operations materials; revenue reports; specifications, systems, standards, techniques, philosophies and materials, guidelines, policies and procedures concerning the Closets By Design System; additions to, deletions from, and modifications and variations of the components of the Closets By Design System or the systems and methods of operations which we employ now or in the future, including all related standards and specifications and the means and manner of offering and selling them; and, all other components, specifications, standards, requirements and duties which we or our Affiliates impose.

Except as authorized in this Agreement, you agree never to copy, duplicate, record or otherwise reproduce any of the Confidential Information or material containing the Confidential Information in whole or in part; store it in a computer, data base or other electronic format; or, otherwise make it available to any third party by sale, transfer, assignment or any other means whatsoever. Upon the termination or expiration of this Agreement, you agree to return to us (or, upon our request, destroy and certify such destruction to us) all Confidential Information, including all materials, books, records, manuals, computer data bases, software and manuals considered confidential under this Agreement which are then in your possession.

You and your officers, directors, shareholders, management, General Manager(s), sales personnel and employees may only use and divulge such Confidential Information as is necessary to operate the franchised Business, and then only on a “need to know” basis, to those of your officers, directors, shareholders, sales personnel, employees, management personnel, agents or independent contractors who need access to it to operate your Business. You agree to take all necessary precautions to ensure that these individuals and all individuals listed in Section 13.05 retain the Confidential Information in confidence and comply with the restrictions of this Section 12.01. Your agreement to procure execution of our Confidentiality/Non-Competition Agreement (or, where applicable, our Confidentiality Agreement) from certain of these individuals is set forth in Section 13.05 below.

13. COVENANTS NOT TO COMPETE

13.01 **In-Term Covenant Not to Compete.** You agree that during the Term of this Agreement and any subsequent Renewal Term of this Agreement, you will not, for yourself and on behalf of or in conjunction with any other person or entity whatsoever, directly or indirectly engage in any other business which offers or sells any custom or non-custom closet, cabinet or drawer services or products, home, garage or space organizer services or products, or any other organizer services or products; which engages in any of the activities which this Agreement contemplates that you will engage in; which competes with us or any of our Affiliates; or, which offers or sells any other service, product or component which during the Term and/or any subsequent Renewal Term is part of the Closets By Design System, or any confusingly similar service or product (a "Competitive Business").

You are prohibited from directly or indirectly engaging in any Competitive Business as a proprietor, partner, investor, shareholder, director, member, officer, manager, employee, principal, agent, adviser, or consultant. In addition, you agree not to divert any business that should be handled by the franchised Business to any other person or entity. It is the intention of these provisions to preclude not only direct competition but also all forms of indirect competition, such as consultation for Competitive Businesses, service as an independent contractor for Competitive Businesses, active or passive investors, franchisor, franchisee or any assistance or transmission of information of any kind that would be of any material assistance to a competitor. Nothing in this Section will prevent you from owning for investment purposes up to an aggregate of 5% of the capital stock of any Competitive Business you do not control, so long as the Competitive Business is a publicly held corporation whose stock is listed and traded on a national or regional stock exchange, or through the National Association of Securities Dealers Automated Quotation System (NASDAQ), and so long as you do not control the company in question.

Further, during the Term of this Agreement or any subsequent Renewal Term of this Agreement, and for two years after the termination or expiration of this Agreement for any reason, you agree not to solicit for employment or hire our or our franchisees' personnel or the personnel of any of our Affiliates, without first obtaining written permission from the employer(s) of the personnel in question. If you violate this covenant by hiring any such personnel of ours or our Affiliates, then in addition to any other remedy available to us, you agree to immediately pay to us (or to our Affiliate, if applicable) an amount equal to 200% of the compensation paid by us or our Affiliate to the employee during the preceding 12 months (or the total time if employed less than 12 months) that he or she was employed by us or our Affiliate, such sum to be paid not as a penalty, but rather as liquidated damages for our (or our Affiliate's) loss of an experienced employee, our (or our Affiliate's) need to locate, hire and train a replacement employee. You further agree during the Term of this Agreement or any subsequent Renewal Term of this Agreement, and for two years after the termination or expiration of this Agreement for any reason, you agree not to solicit for employment or hire any former personnel or of ours or of our Affiliates if such person has been in our or our Affiliate's employ within the past twelve months, without first obtaining written permission from the employer(s) of the personnel in question. If you violate this covenant by hiring any such former personnel of ours or our Affiliates, then in addition to any other remedy available to us, you agree to immediately pay to us (or to our Affiliate, if applicable) an amount equal to 200% of the compensation paid by us or our Affiliate to the employee during the preceding 12 months (or the total time if employed less than 12 months) that he or she was employed by us or our Affiliate, such sum to be paid not as a penalty, but rather as liquidated damages for the likely disclosure of our (or our Affiliate's) confidential information by the person hired.

It is the intention of these provisions that any person or entity with any legal or beneficial interest in or traceable to, down or through you be bound by the provisions of this covenant, regardless of how many levels or tiers there may be between you and the person or entity. **You specifically acknowledge and agree that we can assign our specific rights under this Section 13.01 to a successor in interest.**

If you are a corporation or limited liability company, you agree to confine your activities solely to the operation of the Business and further agree to cause (as applicable) your shareholders (or, if a publicly traded corporation, shareholders owning 5% or more of the issued and outstanding stock of the franchisee corporation), members, managers, directors and officers, and your General Managers and other management employees, to refrain from any of the competitive activities described above in any manner which you reasonably request. If you are a partnership or proprietorship, you agree to confine your activities solely to the operation of the Business and further agree to cause each general partner, proprietor or other beneficial owner and the above-referenced managers and employees to refrain from any of the competitive activities described above in any manner which we reasonably request. If you are a limited partnership, you agree to confine your

activities solely to the operation of the Business and further agree to cause your general partner and the shareholders, officers, directors, members and management employees of your general partner, and all General Managers and other management employees, to refrain from any of the competitive activities described above in any manner which we reasonably request. Your agreement to procure execution of our Confidentiality/Non-Competition Agreement is set forth in Section 13.05 below.

13.02 Post-Term Covenant Not to Compete. You agree that for a period of two years immediately following the expiration, cancellation, assignment or termination of this Agreement for any reason, you will not directly or indirectly engage in any other Competitive Business as defined in Section 13.01 above, provided that such post-term covenant period will be tolled for any period during which you or any other such period bound by the terms of this Section 13.02 has not been in full compliance with the covenant. **You specifically acknowledge and agree that we can assign our specific rights under this Section 13.02 to a successor in interest.**

You are prohibited from directly or indirectly engaging in any Competitive Business as a proprietor, partner, investor, shareholder, director, member, officer, manager, employee, principal, agent, adviser, or consultant, if the other business is located within your Territory, within 75 miles of the perimeter of your Territory, or within 75 miles of the perimeter of (or within) any Closets By Design Business Territory (whether Company-owned, franchised or otherwise established and operated). It is the intention of these provisions to preclude not only direct competition but also all forms of indirect competition, such as consultation for Competitive Businesses, service as an independent contractor for Competitive Businesses, active or passive investment, or any assistance or transmission of information of any kind that would be of any material assistance to a competitor. Nothing in this Section will prevent you from owning for investment purposes up to an aggregate of 5% of the capital stock of any Competitive Business you do not control, so long as the Competitive Business is a publicly held corporation whose stock is listed and traded on a national or regional stock exchange, or through the National Association of Securities Dealers National Market Automated Quotation System (NASDAQ), and so long as you do not control the company in question.

It is the intention of these provisions that any person or entity with any legal or beneficial interest in or traceable to, down or through you be bound by the provisions of this covenant, regardless of how many levels or tiers there may be between you and the person or entity. If any of such persons breach any of the provisions of Section 13.01 or this Section 13.02, it will be deemed a breach of this Agreement by you even if such persons have not executed the Confidentiality Agreement/ Covenant Not to Compete specified in Section 13.05.

If you are a corporation, you agree to cause your shareholders, directors and officers to refrain from any of the competitive activities described above in any manner that we reasonably request. If you are a partnership or proprietorship, you agree to cause each partner, proprietor or other beneficial owner to refrain from any of the competitive activities described above in any manner that we reasonably request.

13.03 Lesser Included Covenants Enforceable At Law. If all or any portion of the covenants not to compete set forth in this Article 13 are held unreasonable, void, vague or illegal by any court or agency with competent jurisdiction over the parties and subject matter, the court or agency will be empowered to revise and/or construe the covenants to fall within permissible legal limits, and should not by necessity invalidate the entire covenants, but rather construe the provisions to provide for the maximum restriction permissible by law. You expressly agree to be bound by any lesser covenant subsumed within the terms of this Article 13 as if the resulting covenants were separately stated in and made a part of this Agreement.

13.04 Enforcement of Covenants Not To Compete. The covenants not to compete set forth in this Agreement are fair and reasonable, and will not impose any undue hardship on you, since you have other considerable skills, experience and education which afford you the opportunity to derive income from other endeavors. You agree that such covenants not to compete: (a) are reasonable, including, but not limited to, their term, geographical area, and scope of activity to be restrained; (b) are designed to preclude competition which would be unfair to us; and (c) do not impose a greater restraint than is necessary to protect our goodwill and other legitimate business interests. You acknowledge that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to us for which no adequate remedy at law will be available. Accordingly, you consent to the entry of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete set forth in this Agreement, without the necessity of our posting any bond or security. You expressly agree that it may conclusively be presumed that any violation of the terms of the covenants not to compete was accomplished by and through your unlawful use of our Confidential Information, know-how, methods and procedures. Further, you expressly agree that any claims you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of the covenants not to compete in this Agreement. You agree to pay all costs and expenses, including reasonable attorneys' and

experts' fees, which we incur in connection with the enforcement of the covenants not to compete set forth in this Agreement if we prevail by means of assent or in any action or proceeding (for this last purpose only, "prevail" as defined in Section 23.03 below).

13.05 Procurement of Additional Covenants.

You agree to require and obtain the execution of our Confidentiality/Non-Competition Agreement (Exhibit 4-A), from all of the following persons: (i) before employment or any promotion, all your General Managers, (ii) all your "Principals," defined as any person or entity holding any direct, indirect legal or beneficial interest in the franchisee, at the same time as the execution of this Agreement or at such later time as they attain that status. You further agree to require and obtain the execution of our Confidentiality Agreement substantially in the form of Exhibit 4-B from all of your non-managerial personnel before employment (or, in the case of any independent contractors, before engagement) or any promotion. You agree to furnish us with copies of all executed Confidentiality/Non-Competition Agreements no later than ten days following their execution.

13.06 Your Enforcement of Confidentiality/Non-Competition Agreements. You agree to vigorously and vigilantly prosecute breaches of any Confidentiality/Non-Competition Agreement executed by any of the individuals referenced in Section 13.05, and you acknowledge our right, to be exercised in our sole judgment, to ourselves enforce the terms of each such executed Confidentiality/Non-Competition Agreement, including, without limitation, our right to bring civil actions to enforce its terms. You agree to prosecute such actions to the fullest extent permitted by law.

14. ASSIGNMENT; RIGHT OF FIRST REFUSAL

14.01 Assignment By Us. We will have the right to assign this Agreement, and all of our rights and privileges under this Agreement, to any person, firm, corporation or other entity, provided that, if the assignment results in the performance by the assignee of our functions under this Agreement: (i) the assignee must, at the time of the assignment, be financially responsible and economically capable of performing our obligations under this Agreement, and (ii) the assignee must expressly assume and agree to perform these obligations. If we assign this Agreement, you expressly agree that immediately upon and following such assignment, we will no longer have any obligation - - directly, indirectly or contingently - - to perform or fulfill the duties or obligations imposed upon "Franchisor" hereunder. Moreover, to the extent that we have arranged for one or more of our affiliates to perform certain activities on our behalf and at our direction, as contemplated by this Agreement, our affiliates will similarly have no obligation, contingent or otherwise, to continue to perform such activities following any such assignment of this Agreement by us. Instead, all such duties and obligations will be performed solely by our assignee.

You agree and affirm that we may sell our company, our assets, our Proprietary Marks and/or our system to a third party; may go public; may engage in a private placement of some or all of our securities; may merge, acquire other corporations, or be acquired by another corporation; or affiliate with an existing competitive or non-competitive franchise or non-franchise network, chain or any other business regardless of the location of that other business' facilities, and that following such activity, we may operate, franchise or license those other businesses and/or facilities under any names or marks, including the Proprietary Marks, regardless of the location of these businesses and/or facilities, which may be within the Territory or immediately proximate to the Territory (subject to Section 3.05(F) hereof). In addition, you further agree and affirm that we may undertake a refinancing, recapitalization, securitization, leveraged buyout or other economic or financial restructuring.

If we assign our rights in this Agreement, nothing in this Agreement requires us to remain in the Closets By Design business or to offer or sell any services or products to you.

14.02 Assignment By You – General. With respect to your obligations under this Agreement, this Franchise Agreement is personal, since we have entered into this Agreement in reliance on and in consideration of your singular personal skill and qualifications (or, if you are an entity, the personal skill and qualifications of your owners), and the trust and confidentiality that we repose in you (or your owners, if you are an entity). Therefore, except as provided below, neither your interest in this Franchise Agreement, your rights, privileges or obligations under this Agreement, the franchised Business, the Closets By Design Location, nor any interest in the franchised Business, the Closets By Design Location or an entity Franchisee, may be assigned, sold, transferred, shared, reconsidered, sublicensed or divided (collectively, "transferred"), voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, in any manner, without first obtaining our written consent in accordance with this Article 14 or without first complying with our right of first refusal pursuant to Section 14.07 below.

This Agreement is your personal obligation. None of your rights to use the Closets By Design System, Proprietary Marks, Confidential Information and Manual are transferable except in strict compliance with the terms of this Agreement. Any actual or attempted assignment, transfer or sale of this Agreement, the franchised Business, the Closets By Design Location, you yourself (if an entity) and of any interest in any of these, in violation of the terms of this Article 14 will be null, void and of no effect, and will be a material and incurable breach of this Agreement which will give us the right to terminate this Agreement immediately upon notice to you, with no opportunity to cure. If you are a corporation, limited liability company, partnership or other entity, an change in or transfer of, direct or indirect, whether voluntary or by operation of law, any ownership interest in you or in any upstream owner up to and including any change in the natural persons who are the ultimate owners or any change in their direct or indirect ownership interest in you or any upstream owner shall constitute an assignment subject to the provisions of this Article 14.

14.03 Assignment By You – to Family Members or Principals.

A. You (if a natural person) or one of your Principals, if a natural person, may with our consent, which will not be unreasonably withheld, assign the franchised Business or an equity interest in the franchisee to such person's spouse, parent, sibling, niece, nephew, descendant or spouse's descendant (or any trust for which any one or more of the foregoing is/are the sole beneficiary/ies), provided that adequate provision is made for the management of the franchised Business and the assignor guarantees, in the form and substance satisfactory to us, the performance of the assignee's obligations under this Agreement. Any transfer pursuant to this Section 14.03 will not be subject to our rights of first refusal under Section 14.07 below, and will not require payment of a transfer fee. However, the assignor and assignee (as applicable) must comply with subsections 14.05 (A) (3) through (12) and (15) through (17) below.

B. If you are an entity franchisee (that is, a corporation, general partnership, limited partnership or other type of recognized legal entity), then transfers of equity interests in such franchisee entity between or among its partners, shareholders, members, Principals or other owners (as applicable) shall be permitted if: (i) you first seek and obtain our prior written consent to any such transfer, which consent shall not be unreasonably delayed or denied, and (ii) no such transfer, whether individually or in the aggregate, will result in a change of control from that which pertained on the Effective Date ("control" as most broadly defined by any United States securities and/or corporate and/or partnership law). No such transfer will be subject to our rights of first refusal under Section 14.07 below nor will any such transfer require payment of a transfer fee.

14.04 Assignment By You – To a Business Entity You Form. As used in this Agreement "Business Entity" means a corporation, limited liability company, partnership or other business entity. If you would like to transfer your interest in this Franchise Agreement to a Business Entity you form solely for the convenience of corporate ownership, you must obtain our prior written consent. We will not unreasonably withhold consent if all the following conditions are met:

1. The Business Entity must be newly organized and duly incorporated or formed, and its activities must be confined to acting exclusively as a Closets By Design franchisee.
2. You must be the sole owner of all the ownership interests of the Business Entity and its principal officer (or the sole owner of 75% or more of all ownership interests of the Business Entity, with the remaining stockholders being your spouse and/or adult children).
3. If the franchisee consists of more than one individual, each individual must have the right to the same proportionate ownership interest in the Business Entity as he or she had in the franchised Business before the transfer.
4. You and the Business Entity must execute an agreement with us pursuant to which you and the Business Entity agree to be parties to this Agreement, and expressly agree to be bound by all the terms, conditions and covenants of this Agreement. Each present and future Principal of the Business Entity must agree in writing to be a party to this Agreement, and to be individually bound by all the terms and conditions of this Franchise Agreement and any other agreements between you and us.
5. Each present and future Principal of the Business Entity must execute our Confidentiality-Non-Competition Agreement in the form of Exhibit 4 to this Agreement.

6. The name of the Business Entity formed by you may not include the Proprietary Marks “Closets By Design,” “CBD”, or” CBDF” (or any variant of any of them), or any words confusingly similar to “Closets By Design”.
7. If the Business Entity is a corporation, all stock certificates of the corporation must be endorsed with the following legend, conspicuously placed:

“The transfer of this stock is subject to the terms and conditions of a Franchise Agreement dated _____ between CBD Franchising, Inc. (the Franchisor) and _____ (collectively the Franchisee). This certificate is not transferable and is not subject to sale, assignment, pledge, mortgage, encumbrance, or transfer, by operation of law or otherwise, without the prior written consent of CBD Franchising, Inc.”
8. The Articles of Incorporation, Bylaws and/or other organizational documents of the Business Entity must state that the issuance and transfer of any interest in the Business Entity are restricted by the terms of the Franchise Agreement.

Any transfer pursuant to this Section 14.04 will not be subject to our rights of first refusal under Section 14.07 below, and will not require payment of a transfer fee.

14.05 Assignment By You – Sale To Third Party.

A. You may not sell or otherwise assign or transfer the franchise conveyed by this Agreement, the franchised Business, the Closets By Design Location, or any interest in any of these, to a third party without our prior written consent. If we do not elect to exercise our right of first refusal (as provided in Section 14.07 below), then we will not unreasonably withhold or delay our consent to the assignment and sale. We agree to inform you of whether or not we consent (or, alternatively, are withholding consent) to the proposed assignment and sale no later than 30 days after the preconditions to our consent identified below in subparagraphs “3” – “7”, “9” and “15” have been satisfied in full and to our reasonable satisfaction (our consent, in this circumstance, by its nature being conditional and subject to revocation should you and/or your proposed transferee fail to satisfy each and every other precondition to our consent and to the proposed transfer identified below in this Section 14.05). You agree that it will not be unreasonable for us to impose, among other requirements, the following conditions to consenting to the assignment and sale:

1. That you notify us of your desire to sell or otherwise assign or transfer your franchised Business prior to engaging a third-party broker or a proposed assignee. If you fail to provide us with the requisite notice, then we may charge you a fee equal to 1% of the sales price.
2. That you comply with the right of first refusal provisions of Section 14.07 of this Agreement.
3. That the proposed assignee not be an existing Closets By Design franchisee; we can withhold consent to such an assignment for any reason or no reason.
4. That the proposed assignee applies to us for acceptance as a franchisee, and furnishes to us the information and references that we request to determine the proposed assignee’s skills, qualifications, financial condition, background and history, reputation, economic resources and ability to assume your duties and obligations under this Agreement and any related agreement. You must pay the costs of any such investigations conducted by us (including, without limitation, our travel, lodging, meal and personnel expenses related to our investigatory trips to the Territory, including trips engaged in under subsection “4” below).
5. That the proposed assignee (or, if an entity, the principals of the proposed assignee) presents himself or herself for a personal interview at our corporate office, or any other location we designate, at the date and time we reasonably request, without expense to us.
6. That the assignee (or the principal officers, shareholders or directors of a corporate assignee, or if any other entity, the principals of the assignee entity) demonstrates that he, she or it has the skills, qualifications, ethics, moral values and economic resources necessary, in our reasonable judgment, to conduct the Business contemplated by this Agreement, and to fulfill his, her or its obligations to the assignor.
7. That the proposed assignee agrees that his, her or its proposed General Manager and any other personnel we designate will attend and successfully complete our Initial Franchise

Training and any other training or orientation programs we then require within 30 days after the execution of the execution of the Franchise Agreement described in subsection 8, all at the assignee's expense (which will include a training fee of \$1,000 per day per attendee and the cost of each attendee's transportation to any training, lodging, food and other living expenses).

8. That either the lessor or sublessor of the Closets By Design Location consents in writing to the assignment of the lease to the proposed assignee; if this is not practicable, the assignee must have secured a substitute Closets By Design Location acceptable to us pursuant to the procedures of Section 6.01, executes a lease for the Location that complies with the provisions of Section 6.02, and completely readies the Location for operation by the date of the assignment.
9. If the lease for the Closets By Design Location is being assigned, that the assignee, at his, her or its expense, upgrade the Closets By Design Location to conform to the then-current standards and specifications of the Closets By Design System, and completes this upgrading within the time reasonably specified by us. This precondition "8" shall not apply if, within 2 years prior to the effective date of the proposed transfer and assignment, you either built out or upgraded the Closets By Design Location to conform to the then-current standards and specifications of the Closets By Design System in effect at the time of such build out or upgrade.
10. That as of the date of the assignment, the assignor has cured any existing defaults under any provisions of this Agreement and any other agreement or arrangement with us or our Affiliates, and has fully satisfied all of your accrued monetary and other obligations to us and our Affiliates under this Agreement and any other agreement or arrangement with us or our Affiliates.
11. That if the Franchise Agreement is being assigned, or the franchised Business is being sold, the assignee executes a separate Franchise Agreement in the form and on the terms and conditions we then offer to prospective franchisees who are similarly situated (except that the Territory will remain the same, the assignee will not be obligated to pay another Initial Franchise Fee, Renewal Fee or Territory Fee and the Continuing Royalty will be that specified in this Agreement through the scheduled date of expiration of the Term of this Agreement). The term of this new Franchise Agreement will expire on the date of expiration of this Agreement unless we and the assignee otherwise agree. The execution of the new Franchise Agreement will terminate this Agreement, except for your guarantees and the post-termination and post-expiration provisions under this Agreement.
12. If the proposed assignee is purchasing part or all of an interest in a corporate or partnership franchisee to this Agreement, then the proposed assignee must execute a Confidentiality/Non-Competition Agreement in the form of Exhibit 4 to this Agreement.
13. That the proposed assignee (or, if an entity, its majority owner) agrees, in form and manner reasonably acceptable to us, and as well in any proposed contract of assignment furnished to us under "17" below, to serve as General Manager of the Business following the effective date of such transfer or assignment, in accordance with our policy, unless otherwise consented to in writing by us.
14. That any contract of assignment conform to our policy by containing a provision binding you and the proposed assignee to ensure that, immediately following the closing of the proposed transfer or assignment transaction, the Business will possess working capital of the greater of (i) \$100,000 or (ii) 2% of the Gross Revenues of your Business in the 12 months immediately preceding the date of transfer or assignment. You and your proposed assignee must verify the availability of such Working Capital as we may reasonably request immediately prior to the closing of any transfer or assignment transaction. The term Working Capital, as used herein, is defined in Section 3.06 of this Agreement.
15. That the assignor (and all shareholders of a corporate assignor, and all partners of a partnership assignor, all proprietors of a proprietorship assignor and all shareholders of the general partner of a limited partnership assignor) executes a general release in the form of Exhibit 7, of any and all claims, demands and causes of action which you and your partners, proprietors, members, directors, officers, shareholders, all other persons in the chain of

ownership, executors, administrators and assigns (as the case may be) may or might have against us and our Affiliates, and their respective officers, directors, shareholders, agents, attorneys, contractors and employees in their corporate and individual capacities including, without limitation, claims arising under federal, state and local laws, rules and ordinances.

16. That the assignor pays us a transfer fee: (i) equal to the greater of 2% of the sales price or \$8,500, if the assignee is identified by a third-party broker; or (ii) \$8,500, plus the greater of: 10% of the sales price or \$40,000, if we identify the assignee. In addition to paying us the foregoing transfer fee, assignor must reimburse us for any reasonable costs we incur in connection with the requested transfer (including the review, approval and memorialization of same). Additionally, assignor must pay to its third-party broker, all fees due in connection with the transfer.
17. That if the assignee is a corporation, limited liability company, partnership, limited partnership or proprietorship, all of the applicable requirements set forth under Sections 8.12, 13.05, 13.06, 14.03, 14.05, 14.06 and 22.09 are complied with, including the execution of Confidentiality/Non-Competition Agreements in the form of Exhibit 4 to this Agreement by those persons required to sign by Section 13.05.
18. That the assignor furnishes us with a copy of the proposed contract of assignment (and any related agreements) pursuant to which the proposed assignee agrees to be liable for all the obligations to us under this Agreement and/or the new Franchise Agreement, and expressly agrees to be bound by all the terms, conditions and covenants of this Agreement and/or the new Franchise Agreement and we find the proposed contract of assignment acceptable, and promptly following execution, receive a copy of the executed contract of assignment (and any related agreements). The contract of assignment shall not be modified by the assignor and/or the proposed assignee from the final form approved by us. Any modification to the contract of assignment without our written approval shall make such contract voidable at our sole discretion.
19. That you remain liable for all the obligations to us arising out of or related to this Agreement before the effective date of the transfer or assignment, and execute all instruments reasonably requested by us to evidence this liability.
20. That the assignor complies with the terms of the post-term covenant not to compete set forth in Section 13.02 and Exhibit 4 Confidentiality/Non-Competition Agreement, commencing on the effective date of the assignment.

B. If we consent to the assignment of this franchise, we will also consent to the assignment of your lease agreement with your Closets By Design Location lessor and all other agreements between you and us. If the franchise is assigned, you also agree to assign your lease agreement with the Closets By Design Location lessor and all other agreements between you and us to the same assignee. After the assignment, you will remain liable under all the assigned agreements to the extent they require.

C. You agree to defend at your own cost and to indemnify and hold harmless us and the other Indemnitees (as defined in Section 8.10) from and against any and all losses, costs, expenses (including attorneys' and experts' fees and disbursements), court costs, travel and lodging costs, personnel costs, claims, demands, damages, liabilities, however caused (whether or not the losses, costs, expenses, court costs, travel and lodging costs, personnel costs, travel and lodging costs, claims, demands, damages or liabilities are reduced to judgment), resulting directly or indirectly from or pertaining to any statements, representations or warranties that may be given by you to any proposed assignee of the franchise, or any claim that you or the assignor engaged in fraud, deceit, violation of franchise laws, negligence, willful misconduct, your acts, errors or omissions as the assignor or other illegality in connection with the negotiation or consummation of the assignment. The indemnification obligations set forth in this subsection 14.06 C. will survive the termination or expiration of this Agreement.

14.06 Assignment By You – Transfer Upon Death or Disability. Upon the death or disability, as defined below, of you (if you are an individual) or of your last surviving principal, partner, shareholder or member (if you are an entity), that person's rights will pass to his or her estate, heirs, legatees, guardians or representatives, as appropriate (collectively, the "Estate"). The Estate may continue the operation of the franchised Business if: (i) the Estate provides a competent and qualified individual acceptable to us to serve as General Manager and

operate your Closets By Design Business on a full-time basis, and, (ii) this individual assumes full-time operation of the franchise as General Manager within 180 days of the date the person dies or becomes disabled. In the alternative, the Estate may sell the franchise within one month in accordance with the provisions of Section 14.05.

If the Estate does not designate a General Manager, the Estate's designated General Manager does not attend and satisfactorily complete our Initial Franchise Training and assume the full-time operation of the franchised Business within 180 days, or, in the alternative, if the Estate does not sell your franchise in accordance with the provisions of Section 14.05 within 180 days after receiving notice from us that we cannot accept any heir or beneficiary as General Manager and that you have failed to appoint a General Manager acceptable to us within the time provided above, this will be a material breach of this Agreement which, unless cured by the Estate as provided in Section 31, give us the right to terminate this Agreement immediately upon notice to you (if an entity) and the Estate.

"Disability" means any physical, emotional or mental injury, illness or incapacity which prevents or will prevent a person from performing the obligations set forth in this Agreement for at least 90 consecutive days. Disability will be determined either after this 90 day period or upon examination of the person by a licensed practicing physician selected by us before the end of the 90 day period, when we reasonably believe that person to be disabled. If the person refuses to submit to an examination, then we will have the right to terminate this Agreement upon immediate notice to you (if an entity) and the Estate. We will pay the costs of any examination required by this Section.

14.07 Right of First Refusal. Your rights to assign, transfer, redeem or sell any interest in this Franchise Agreement or the franchised Business (collectively, an "assignment"), voluntarily or by operation of law (as provided above), will be subject to our right of first refusal. We will exercise our right of first refusal in the following manner:

1. You must deliver to us a true and complete copy of the proposed assignee's offer (the "notice") including all material terms and furnish to us any additional information concerning the proposed transaction and the proposed assignee that we reasonably request. Additionally, the proposed assignee shall satisfactorily complete our then-current franchise qualification process.
2. Within 30 days after our receipt of the information set forth in "1" above and the proposed assignee's satisfactory completion of our then-current franchisee qualification process (or, if we request additional information, within 30 days after receipt of the additional information), we may either consent or withhold its consent to the assignment, in accordance with this Article, or at our option, accept the assignment to ourselves or to our nominee, on the terms and conditions specified in the notice. However, we will be entitled to all of the customary representations and warranties given by the seller of assets of a business, including (without limitation) representations and warranties as to ownership, condition of and title to assets, liens and encumbrances on the assets, validity of contracts and agreements, and your contingent and other liabilities affecting the assets.
3. If a partial transfer is proposed through the assignment of more than 50% (or a controlling interest) of the capital stock of a corporate franchisee to other than the shareholders of the franchisee; of more than 50% (or a controlling interest) of the membership interests in a limited liability company franchisee to other than the owners of the franchisee; of more than 50% (or a controlling interest) of partnership or proprietorship interests to other than the partners or proprietors of the franchisee; or, of more than 50% (or a controlling interest) of an equity interest in the general partner of a limited partnership franchisee to other than the equity owners of the general partner of the franchisee (in each case measured against the ownership of the franchisee entity as originally constituted on the Effective Date), then we will have the option to purchase not only the interests being transferred but also the remaining interests, so that our resulting ownership will be 100% of the franchisee entity ("controlling interest" bearing the broadest definition of such term then afforded by any federal or state corporate, securities or partnership law). The price of these remaining interests will be proportionate to the price of the interests initially being offered.
4. Our credit will be considered at least equal to the credit of any proposed purchaser. We may substitute cash for the fair market value of any other form of payment proposed in the offer.

5. If we give notice of exercise of our right of first refusal, we will be given at least sixty days after our notice to prepare for closing. You agree to take all action necessary to assign your lease agreement with the lessor of the Closets By Design Location to us.
6. If we elect not to exercise our right of first refusal and we consent to the proposed assignment or redemption, then you will, subject to the provisions of this Article, be free to assign this Agreement or the franchised Business to your proposed assignee on the terms and conditions specified in the notice if you satisfy the conditions of Section 14.05 for our approval of an assignment. If, however, the terms are changed, the changed terms will be considered a new offer, and we will have a right of first refusal with respect to this new offer.
7. Our election not to exercise our right of first refusal with regard to any offer will not affect our right of first refusal with regard to any later or modified offer. If we do not exercise our right of first refusal, this will not constitute approval of the proposed transferee, assignee, redemption or the transaction itself. You and any proposed assignee must comply with all the criteria and procedures for assignment of the franchise, the Franchise Agreement and/or the franchised Business specified in this Article 14.

14.08 No Encumbrance. Without our prior written consent (which will not be unreasonably withheld, delayed or denied), you may not pledge, encumber, mortgage, hypothecate or otherwise grant any third party a security interest in this Agreement, the franchised Business, your Closets By Design Location, any ownership interests in you (if you are a business entity), any ownership interests in any business entity which directly or indirectly controls you, your lease or sublease (as applicable) or any of the tangible assets material to the operation of the operation of your franchised Business (including, without limitation, the premises of your franchised Business and your Closets By Design Location). We may require your compliance with any policy statement which we adopt and announce regarding such security interests. We reserve the right to review and approve the terms of any security agreement or other document granting a security interest in any of the assets or interests described in this Section, which approval shall be in writing.

14.09 No Assignment By Principals. During the Term of this Agreement or any subsequent Renewal Term of this Agreement, and for two years after the termination or expiration of this Agreement for any reason, neither you nor any Principal of yours may sell, assign, transfer, share, reconsider, sublicense or divide, voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, any of the assets of, related to, used by or owned by your franchised Business to any current or past employee, officer, director or contractor of your Business; to any individual or entity who previously (but no longer at the time of transfer as such attempted assignment) owned a franchised Business; and/or, to any friend or family member of you and/or any of your current or past Principals ("family member" including, without limitation, your or any such Principal's spouse; brother; brother-in-law; sister; sister-in-law; parent; parent-in-law; child; child-in-law; or, cousin in any degree) without first obtaining our prior written consent (which we may withhold for any reason or no reason).

14.10 No Offer or Sale of Securities

You hereby understand, acknowledge and agree that under no circumstance may you engage or participate in the offer or sale of securities, of any type or nature or other ownership interests in you, the franchised Business, any owner and/or any guarantor unless you obtain our prior written consent (which we may withhold for any or no reason). If we determine to grant you our consent, we may impose any pre-conditions that we determine (in our sole judgment) necessary, including without limitation requiring you to submit to us for review and prior consent a copy of the proposed offering documents and materials) and to reimburse us for our costs and expenses incurred in connection with reviewing such documents and materials.

14.11 Bankruptcy

If you, your franchised Business or any owner of you and/or your franchised Business is the subject of any voluntary or involuntary proceeding under the U.S. Bankruptcy Code, as amended, and if this Agreement does not terminate as provided in Section 17.01, but, instead, is to be assumed by, or assigned to, a third party individual or entity which has made a *bona fide* offer to accept an assignment of this Agreement as contemplated by the U.S. Bankruptcy Code, then you must notify us of any such proposed assignment or assumption within five days after your receipt of such proposed assignee's offer to accept assignment or to assume your rights and obligations under this Agreement. Such notice must be given to us, in any event, no later than ten days prior to the date application is made to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption.

The notice required above must contain the following: (i) the name and address of the proposed assignee; (ii) all of the terms and conditions of the proposed assignment and assumption; and, (iii) adequate assurance to be provided to us to assure the proposed assignee's future performance (as defined below) under this Agreement, including (without limitation) the assurance referred to in Section 365 of the U.S. Bankruptcy Code and the satisfaction of the preconditions to assignment set forth in Section 14.05 of this Agreement.

We will then have the prior right and option, to be exercised by notice given at any time prior to the effective date of the proposed assignment and assumption, to accept an assignment of this Agreement to ourselves, our affiliate or another franchisee, upon the same terms and conditions, and for the same consideration (if any), as in the *bona fide* offer made by the proposed assignee, less any brokerage commissions or other expenses which may be saved by you as a result of our exercise of the rights and options granted to us herein. Under no circumstance shall we be liable for the payment of any brokerage commissions or other expenses as a result of our exercise of our rights and options hereunder unless we otherwise agree in writing.

"Adequate assurance of future performance", as used above, shall mean that we shall have been furnished with specific evidence that any proposed assignee of this Agreement can and will comply with all operational and other performance requirements, and with all conditions, obligations, duties, covenants and requirements of a franchisee under: (i) this Agreement; (ii) the standard form Franchise Agreement then being offered to our franchisees; (iii) such other ancillary agreements as we may require; and (iv) any of our policies describing our franchisees' duties, obligations, conditions, covenants or performance requirements. You understand and agree that adequate assurance of future performance shall mean that any proposed assignee must satisfy the conditions set forth in Section 14.05 above.

14.12 No Waiver of our Rights

Our consent to any sale, transfer or assignment under this Article 14 shall not constitute a waiver of any claims we may have against you, your franchised Business, any of your owners and/or any guarantor, nor shall our consent be deemed a waiver of our right to require exact compliance with any of the terms of this Agreement by any assignee.

15. PROPRIETARY MARKS

15.01 Your Non-Ownership of Proprietary Marks. Nothing in this Agreement will give you any right, title or interest in or to any of our (or our Affiliates') Proprietary Marks except as a mere privilege and license, during the term of this Agreement, to display and use the Proprietary Marks according to the limitations set forth in this Agreement. You understand and agree that your limited license to use the Proprietary Marks granted by this Agreement applies only to the Proprietary Marks shown on Exhibit 2 (if we do not subsequently designate them as being withdrawn from use), together with those that we may later designate in writing. You expressly understand and agree that you are bound not to represent in any manner that you have acquired, and you will not assert any claim to, any ownership, goodwill, reputation or equitable rights in any of our Proprietary Marks by virtue of the limited license granted under this Agreement, by virtue of your use of any of the Proprietary Marks or otherwise. All of your uses of the Proprietary Marks, whether as a trademark, service mark, trade name or trade style, will inure to our benefit. Following the termination or expiration of this Agreement, no monetary amount will be attributable to any goodwill associated with your use of the Proprietary Marks or operation of the franchised Business or Closets By Design Location, including any "local goodwill".

You acknowledge that our rights in the Proprietary Marks are not limited to the specific presentation or configuration of any of them, but rather extend to all combinations and displays of the words and/or designs elements thereof and extend to all translations of them in any language. Further, you acknowledge and agree that our rights in and to the Proprietary Marks are not limited to such rights as may be conferred by registrations thereof or by applications for registrations but, instead, include extensive common law and other rights in the Proprietary Marks vested in us as a result of their use by us and other authorized parties.

15.02 Acts in Derogation of the Proprietary Marks. You agree that the Proprietary Marks are our (or our Affiliates') exclusive property. You assert and will in the future assert no claim to any goodwill, reputation or ownership of the Proprietary Marks by virtue of your licensed use of the Proprietary Marks, or for any other reason. You agree that you will not do or permit any act or thing to be done in derogation of any of our rights or the rights of our Affiliates in connection with the Proprietary Marks, either during or after the term of this Agreement. You agree not to apply for or obtain any trademark or service mark registration of any of the licensed Proprietary Marks or any confusingly similar marks in your own name. You agree to use the Proprietary

Marks only for the uses and in the manner licensed under this Agreement and as provided in this Agreement. You agree that you will not, during or after the term of this Agreement, impair the goodwill associated with the Proprietary Marks or in any way dispute or impugn the validity of the Proprietary Marks, our rights (or those of our Affiliates) to the Proprietary Marks, or the rights to use the Proprietary Marks of us, our Affiliates, other franchisees of ours or other third parties to whom we may have licensed the Proprietary Marks.

15.03 Use and Display of Proprietary Marks.

A. You must not use, and must not permit or cause another to use, the Proprietary Marks except in the manner and to the extent specifically licensed to you under this Agreement. You agree that each use you make of any Proprietary Mark will accurately portray the Proprietary Mark and that the Proprietary Mark will not be used or portrayed in a manner which jeopardizes the goodwill associated with the Proprietary Mark or the Closets By Design System. You agree to use the Proprietary Marks in full compliance with rules we prescribe from time to time in our Manual or otherwise. You are prohibited (except as expressly provided in this Agreement) from using any Proprietary Mark with any prefix, suffix, or other modifying words, terms, designs or symbols (other than logos licensed by us to you). You may not use any Proprietary Mark in connection with the sale of any unauthorized service, product or program or in any other manner not explicitly authorized in writing by us. You may use the Proprietary Marks only for the operation of the franchised Business or in advertising for the franchised Business. Your right to use the Proprietary Marks is limited to the uses authorized under this Agreement. Any unauthorized use of the Proprietary Marks by you will constitute an infringement of our rights and a material and incurable breach of this Agreement that will give us the right to terminate this Agreement immediately upon notice to you, with no opportunity to cure.

B. You may not use the Proprietary Marks in any way that will incur any obligation or indebtedness on our behalf. You agree to comply with our instructions in filing and maintaining all requisite trade name or fictitious name registrations, and in executing any documents considered necessary by us or our counsel to obtain protection for the Proprietary Marks or to maintain their continued validity and enforceability.

C. You agree to affix our Proprietary Marks on the Closets By Design Location and the uniforms, equipment, containers, fixtures, signs, stationery, advertising, sales/promotional materials and other objects, in the size, color, lettering style and fashion and at the places which we designate in our Manual or otherwise. You also agree to display the Proprietary Marks and relevant trademark and copyright notices pursuant to the requirements set forth in the Manual. Except as expressly provided in the Manual or otherwise, you may not erect or display in or on your Closets By Design facility, stationery, advertising, sales or promotional materials or any other objects bearing any other trademarks, logotypes, symbols or service marks. You may not use any names, marks or logotypes other than the Proprietary Marks in connection with the franchised Business without our prior written approval.

15.04 Non-Use of Trade Name. If you are an entity, you may not use our Proprietary Marks or any confusingly similar words or symbols, in your entity name. In particular, you may not use the words “Closets By Design”, “CBD”, “CBDF”, “CBD Franchising, Inc.”, or any variant as part of your entity name.

15.05 Required Means of Identification. You must conduct your Closets By Design Business under the assumed business name “Closets By Design”. You agree, at your expense, to perform all filings and procure all required or necessary governmental approvals or registrations required to do business under that assumed business name. You agree to identify yourself as a franchisee, but not an agent, of ours.

15.06 Our Defense of Proprietary Marks. If you receive notice, are informed or learn of any claim, suit or demand against you on account of any alleged infringement, unfair competition, or similar matter relating to the use of the Proprietary Marks, including, without limitation, our trademarks, service marks, copyrights, Templates and other intellectual property (each, a “claim”), you agree to promptly notify us. We will then promptly take any action we may consider necessary to protect and defend you against the claim and indemnify you against any loss, cost or expense incurred in connection with the claim, so long as the claim is based solely on any alleged infringement, unfair competition, or similar matter relating to the use of the Proprietary Marks. You may not settle or compromise the claim by a third party without our prior written consent. We will have the right to defend, compromise and settle the claim at our sole cost and expense (which will be paid using the funds from the National Promotion and Protection Fund), using our own counsel. You agree to cooperate fully with us in connection with the defense of the claim. You grant irrevocable authority to us, and appoint us as your attorney in fact, to defend and/or settle all claims of this type. You may participate at your own expense in the defense or settlement, but our decisions with regard to the settlement will be final. We will have no obligation to defend or

indemnify you pursuant to this Section 15.06 if the claim arises out of or relates to your use of any of the Proprietary Marks in violation of the terms of this Agreement.

15.07 Prosecution of Infringers. If you receive notice, are informed or learn that any third party that you believe is not authorized to use the Proprietary Marks is using the Proprietary Marks or any variant of the Proprietary Marks, you agree to promptly notify us. We will then prosecute any such unauthorized use of the Proprietary Marks if same is transpiring in your Territory or would otherwise materially impact your franchised Business unless, in our reasonable determination, the purported unauthorized use of the Proprietary Marks is being engaged in by an individual or entity holding superior intellectual property rights to such Proprietary Marks. Under no circumstance will you have any right to prosecute any such infringement claim.

15.08 Discontinuance or Substitution of Proprietary Marks. If it becomes advisable at any time, in our sole judgment, to modify or discontinue use of any Proprietary Mark and/or to adopt or use one or more additional or substitute Proprietary Marks, then you agree to comply with our instructions. If this occurs, and there is a change in the name or wording of the Proprietary Mark (as opposed to a change that is merely stylistic in nature, including, by way of example only, changes in logos, designs, templates, or style of presentation) then our only obligation will be to: (i) reimburse you for your documented expenses of reidentifying any tangible item bearing the now modified or discontinued Proprietary Mark (such as stationery, signs, advertising slicks, business cards, vehicle identification decals or painting, form contracts, brochures, marketing and promotional materials and other such tangible items, in each instance upon your documenting to our reasonable satisfaction the items in question, the quantity thereof and the replacement therefore which we are reimbursing you for), and (ii) spend in your market on local advertising and promotion that we alone determine, select, place and pay for (beyond the local advertising expenditures you will continue to be obligated to make pursuant to Section 10.06 above) a sum equal to 30% of the amount you expended on local advertising and promotion in the three month period immediately preceding our notice to you of the modification or discontinued use of any Proprietary Mark and/or our adoption or use of one or more additional or substitute Proprietary Marks, such advertising to run - - if reasonably possible - - during the three month period following the effective date of the Proprietary Mark modification, discontinued use and/or substitution; (provided, however, that if two-thirds or more of the then existing Closets By Design franchised Businesses register support for such Proprietary Mark modification, discontinuation, addition or substitution, then the provisions of this subparagraph (ii) will not apply). If the Proprietary Mark change is merely stylistic in nature (including, by way of example only, changes in logos, designs, templates, or style of presentation) and there is no change in the name or wording of the Proprietary Mark, we will have no obligation to reimburse you under subparagraph (i) or to make the expenditures under subparagraph (ii), and all expenses of making the change will be at your sole expense. We will not be liable to you for any expenses, losses or damages sustained by you as a result of any Proprietary Mark addition, modification, substitution or discontinuation except as provided above in this Section.

16. RELATIONSHIP OF THE PARTIES

16.01 Independent Contractor. You understand and agree that you are and will be our independent contractor under this Agreement. Nothing in this Franchise Agreement may be construed to create a partnership, joint venture, agency, employment or fiduciary relationship of any kind. None of your employees will be considered to be our employees. Neither you nor any of your employees whose compensation you pay may in any way, directly or indirectly, expressly or by implication, be construed to be our employee for any purpose, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any city, state or federal governmental agency. We will not have the power to hire or fire your employees. You must communicate to all employees that you, not us, are their employer; and you must ensure that no payroll checks or other employment-related documents (such as job applications and W-2s) contain or reference the Proprietary Marks or our name. Each of the parties will file its own tax, regulatory, and payroll reports with respect to its respective employees and operations, saving and indemnifying the other party hereto of and from any liability of any nature whatsoever by virtue thereof. You expressly agree, and will never contend otherwise, that our authority under this Agreement to certify certain of your employees for qualification to perform certain functions for your franchised Business does not directly or indirectly vest in us the power to hire, fire or control any such employee.

You acknowledge and agree, and will never contend otherwise, that you alone will exercise day-to-day control over all operations, activities and elements of your franchised Business and that under no circumstance shall we do so or be deemed to do so. You further acknowledge and agree, and will never contend otherwise, that the various requirements, restrictions, prohibitions, specifications and procedures of the System which you are required to comply with under this Agreement, whether set forth in our Manual or otherwise, do not directly

or indirectly constitute, suggest, infer or imply that we control any aspect or element of the day-to-day operations of your franchised Business, which you alone control, but only constitute standards you must adhere to when exercising your control of the day-to-day operations of your franchised Business.

You may not, without our prior written approval, have any power to obligate us for any expenses, liabilities or other obligations, other than as specifically provided for in this Agreement. Except as expressly provided in this Agreement, we may not control or have access to your funds or the expenditure of your funds or in any other way exercise dominion or control over your Business. Except as otherwise expressly authorized by this agreement, neither party will make any express or implied agreements, warranties, guarantees or representations or incur any debt in the name of or on behalf of the other party, or represent that the relationship between us and you is other than that of franchisor and franchisee. We do not assume any liability, and will not be considered liable, for any agreements, representations, or warranties made by you that are not expressly authorized under this Agreement.

You agree to conspicuously identify yourself, your franchised Business and your Closets By Design Location – in all dealings with your customers, contractors, suppliers, public officials and others – as our independent franchisee, using the words “INDEPENDENTLY OWNED AND OPERATED” or other language as we may direct in our Manual or otherwise. You agree to place this notice of independent ownership on all forms, business cards, stationery, advertising, signs and other materials in the fashion that we may specify and require from time to time, in our Manual or otherwise.

You promise that you will not avail yourself of any rights or remedies at law or in equity that may arise from an assertion that: (i) you are our agent, legal representative, subsidiary, joint venturer, partner, employee, or servant; or (ii) we are a joint employer for your employees. If such a claim is brought against us, we may use your covenant in this Section 16.01 as an absolute defense against such claim. Further, if any such claim is brought against us or our affiliates and subsidiaries, and their respective current and former officers, directors, shareholders, partners, employees, predecessors, successors, attorneys, agents, representatives, and assigns, you will indemnify, defend, and hold harmless any such party from and against any such claim.

16.02 You are the Sole and Exclusive Employer of Your Employees. You hereby irrevocably affirm, attest and covenant your understanding that in no fashion are you, or may you be deemed to be, our employee (under any theory or definition of “employee” or “employment”) and that your employees are employed exclusively by you and in no fashion are you or any such employee either employed, jointly employed or co-employed by us. You further affirm and attest that each of your employees is under the exclusive dominion and control of you and never under the direct or indirect control of us in any fashion whatsoever. You alone hire each of your employees; set their schedules; establish their compensation rates; and, pay all salaries, benefits and employment-related liabilities (workers’ compensation insurance premiums/payroll taxes/Social Security contributions/Affordable Care Act contributions/unemployment insurance premiums). You alone have the ability to discipline or terminate your employees to the exclusion of us, who has no such authority or ability. You further attest and affirm that any minimum staffing requirements established by us is solely for the purpose of ensuring that your franchised Business is at all times staffed at those levels necessary to operate your franchised Business in conformity with the System and the products, services, standards of quality and efficiency, and other Closets By Design brand attributes known to and desired by the consuming public and associated with the Proprietary Marks. You affirm, warrant and understand that you may staff your franchised Business with as many employees as you desire at any time so long as our minimal staffing levels are achieved. You also affirm and attest that any recommendations you may receive from us regarding salaries, hourly wages or other compensation for employees are recommendations only, designed to assist you to efficiently operate your franchised Business, and that you are entirely free to disregard our recommendations regarding such employee compensation. Moreover, you affirm and attest that any training provided by us for your employees is geared to impart to those employees, with ultimate authority, the various procedures, protocols, systems and operations of a franchised Business and in no fashion reflects any employment relationship between us and such employees. Finally, should it ever be asserted that we are the employer, joint employer or co-employer of you or any of your employees in any private or government investigation, action, proceeding, arbitration or other setting, you irrevocably agree to assist us in defending said allegation, including (if necessary) appearing at any venue requested by us to testify on our behalf (and, as may be necessary, submitting itself to depositions, other appearances and/or preparing affidavits dismissive of any allegation that we are the employer, joint employer or co-employer of you or any of your employees). To the extent we are the only named party in any such investigation, action, proceeding, arbitration or other setting to the exclusion of you, then should any such appearance by you be required or requested by us, we will recompense you the reasonable costs associated with you appearing at any such venue (including travel, lodging, meals and *per diem* salary). Pursuant to

Section 8.10 above, Franchisee will indemnify and hold harmless us and the other Franchisor Parties to the fullest extent permitted by law against all claims, losses, liabilities and costs (as defined in Section 8.10) from any claim, however and wherever asserted, that we or our affiliates are the employer, joint employer or co-employer of you and/or your employees (including, without limitation, any claims against us for your violation of federal, state or local labor and/or wage and hour laws, rules and regulations). Accordingly, in accordance with Section **Error! Reference source not found.**) Franchisee shall obtain and maintain insurance coverage of such type, nature and scope sufficient to satisfy this indemnification obligation.

17. DEFAULT AND TERMINATION

17.01 Termination By Us – Automatic Termination Without Notice. You will be in default of this Agreement, and all rights granted in this Agreement will immediately and automatically terminate and revert to us without notice to you, if: you, the franchised Business or the business to which the franchise relates is adjudicated as bankrupt or insolvent; all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor; a petition in bankruptcy is filed by or against you or the franchised Business and in the case of an involuntary filing is not immediately contested and/or dismissed within sixty days from filing; a bill in equity or other proceeding for the appointment of a receiver or other custodian of you, the franchised Business or assets of either is filed and consented to by you; a receiver or other custodian (permanent or temporary) of all or part of your assets or property is appointed by any court of competent jurisdiction; proceedings for a composition with creditors under any state or federal law are instituted by or against you or the franchised Business; you are dissolved; execution is levied against you, the franchised Business or your property; or, the real or personal property of the franchised Business is sold after levy thereon by any governmental body or agency, sheriff, marshal or constable.

17.02 Termination By Us Upon Notice – No Opportunity To Cure. You will have materially breached this Agreement and we may, at our option, terminate this Agreement and all rights granted under this Agreement, without giving you any opportunity to cure the breach, effective immediately upon your receipt of notice (which, whether sent by certified mail, registered mail, overnight courier or personal physical delivery, will be deemed to have been received by you upon delivery or first attempted delivery of the notice to you) upon the occurrence of any of the following events:

1. You abandon the franchise by failing to operate the Business for a period of seven consecutive days without our prior written consent (which will not be unreasonably withheld); unless your failure to operate is caused by a vacation of reasonable length, an illness which lasts for less than 30 days, or an event specified in Section 19.01.
2. You omitted or misrepresented any material fact in the information that you furnished to us in connection with our decision to enter into this Agreement which omission or misrepresentation has or had any material effect on us, any of our Affiliates or the franchised Business.
3. You and we agree in writing to terminate this Agreement.
4. You lose the right of possession of the Closets By Design Location.
5. You, your General Manager and/or, if you are a business entity, any principal, owner, member, shareholder, director or manager (as applicable) of such entity are convicted of a felony, fraud, crime involving moral turpitude, or any other crime or offense which we reasonably believe is related to your operation of the franchised Business, or is likely to have an adverse effect on the Closets By Design System, the Proprietary Marks, the goodwill associated with the Proprietary Marks or our interest in the System or Proprietary Marks.
6. You purport, or if you are a business entity, any principal, owner, member, shareholder, director or manager (as applicable) of such entity purports, to transfer or assign any rights or obligations under this Agreement, any interest in you or any of your upstream owners, the franchised Business or the Closets By Design Location to any third party in violation of the terms of this Agreement.
7. You make, or if you are a business entity, any principal, owner, member, shareholder, director or manager (as applicable) of such entity makes, any attempt or purport to sell, assign, transfer or encumber the Proprietary Marks.

8. You do not comply with the covenant not to compete set forth in this Agreement during the term of this Agreement; violate the restrictions pertaining to the use of Confidential Information contained in this Agreement; or, do not obtain the execution of the additional covenants required by this Agreement.
9. You, your General Manager and all others required to do so fail to attend or successfully complete our Initial Training Program (after being afforded the opportunity to repeat the training pursuant to Section 7.02 of this Agreement).
10. You knowingly conceal revenues; maintain false books or records; falsify information or otherwise defraud or make false representations to us; or, submit any false report to us.
11. You do not maintain the financial records required by Section 11.02 of this Agreement.
12. We or our designee conducts an audit of your franchised Business which discloses that any monthly report or statement which you submitted to us understated your Gross Revenues by 8% or more for any month within the period of examination, or for the entire period of examination.
13. You refuse us permission to inspect, or to conduct an operational and/or financial audit of, your franchised Business.
14. You take, withhold, misdirect or appropriate for your own use any funds withheld from your employees' wages which should have been set aside for the franchised Business' employee taxes, FICA, insurance or benefits; wrongfully take or appropriate for your own use our property or funds; systemically fail to deal fairly and honestly with your employees, customers or suppliers; or knowingly permit or, having discovered the facts, fail to take any action against, or to discharge, any agent, servant or employee who has embezzled our funds or property or that of any customers or others.
15. After curing a default which is subject to cure under Section 31 below, you commit the same act of default again within six months.
16. You make a willful misrepresentation or do not make a material disclosure required by any governmental or quasi-governmental authority regarding any matter involving or affecting the operations of your franchised Business.
17. You interfere or attempt to interfere in any manner with our or our affiliates' contractual relations and/or our relationships with other franchisees; any supplier of you, us or other franchisees; any governmental or quasi-governmental authority; our employees or advertising agencies; or, any third parties.
18. You commit any act or default which materially impairs the goodwill associated with our Proprietary Marks and which, by its nature, is incurable; or, if the default is curable, you fail to cure the default following delivery of written notice to cure at least seventy-two hours in advance.
19. You do not comply, for a period of fifteen days after notification of non-compliance by us or any governmental or quasi-governmental authority, with any federal, state or local law or regulation applicable to the operation of the franchised Business.
20. You repeatedly fail to comply with one or more requirements of this Agreement, whether or not corrected after notice.
21. You do not purchase or maintain any category of insurance required by this Agreement.
22. You, your franchised Business or your General Manager violate any law, rule or regulation, and/or engage in any act or practice, which subjects you and/or us to widespread publicity, ridicule or derision.
23. You breach the provisions of this Agreement relating to advertising standards and do not cure this breach within three days following written notice from us.
24. You purchase any proprietary programs, products or services from us or our affiliates, or purchase from us, our affiliates or any third party non-proprietary goods, programs, products or

services pursuant to a systemwide supply contract we negotiate, and you use, divert, sell or otherwise exploit such programs, products or services for the benefit of any other individual, entity or business.

25. You operate your franchised Business in a fashion that, in our business judgment, in any way jeopardizes the life, health or safety of the general public, your customers and/or your employees. If you do so, then not only may we terminate this Agreement upon notice, but you agree that we may either beforehand or concurrently direct you to immediately close your franchised Business; you shall immediately comply with such direction (which may be given orally or in writing); and, you shall hold us harmless from and against any claims whatsoever relating to our direction to close your franchised Business.
26. You make any use of our Confidential Information and/or Proprietary Marks not specifically authorized by this Agreement or our Manual, or you directly or indirectly utilize or devote same for the benefit of any individual or entity other than your franchised Business.
27. You engage in any act or conduct, or fail to engage in any act or conduct, which under this Agreement specifically authorizes us to terminate this Agreement immediately upon notice to you.
28. You default under any agreement between you and any lessor or sublessor of your Closets By Design Location and you do not cure the default within the period specified in the Closets By Design Location's lease or sublease (as applicable).
29. You commit three identical or similar defaults hereunder, whether or not cured, within any 18 month period during the term of this Agreement.
30. Any licenses necessary for the continued operation of the franchised Business are suspended or revoked, and such licenses have not been reinstated or substitute licenses have not been obtained within ten business days after the suspension or revocation.
31. You or any representative of your franchised Business interfere or attempt to interfere in any manner with our employees, including, but not limited to, forming or attempting to form a romantic or sexual relationship with our employees, or engage in any act or practice with our employees, which subject you and/or us to negative widespread publicity, ridicule or derision or is, on our sole judgment, likely to have an adverse effect on the Closets By Design System, the Proprietary Marks, the goodwill associated with the Proprietary Marks or our interest in the System or Proprietary Marks.

17.03 Termination by Us – 30 Days to Cure; Redefinition of Territory as Alternative to Termination.

Except as specifically provided elsewhere in this Agreement and/or above in this Article 17, you will have 30 calendar days after we furnish you with a written Notice of Default in accordance with the terms of Section 21.01 of this Agreement to remedy any default under this Agreement (or, if the default cannot reasonably be cured within this period but is otherwise capable of cure within 60 days, to cure the default within that time), and to provide us with evidence that you have done so. If you have not cured any default within that time (or, if appropriate, you have not initiated action to cure the default within that time and cured such default within 60 days) or any longer period that applicable law may require, this Agreement will terminate immediately upon expiration of the 30 day period, or any longer period required by applicable law. In lieu of terminating this Agreement, we have the right, but not under any circumstances the obligation, to redefine and reduce the Territory conferred hereunder upon written notice to you. We must exercise this right in good faith, using the same criteria we use for other Closets By Design franchisees that are similarly situated. You will be in default of this Agreement for any failure to substantially comply with any of the requirements imposed upon you by this Agreement, as it may from time to time be supplemented by our Manual and all Supplements to the Manual, or otherwise, to carry out the terms of this Agreement in good faith, or your failure to comply with any specification, standard or operating procedure prescribed by us in our Manual or otherwise pursuant to this Agreement (with the exception of those defaults which are grounds for automatic or immediate termination as set forth elsewhere in this Agreement and/or above in this Article 17).

17.04 Description of Default. The description of any default in any notice that we transmit to you will in no way preclude us from specifying additional or supplemental defaults under this Agreement or any related Agreements in any action, proceeding, mediation, hearing or lawsuit relating to this Agreement or the termination of this Agreement.

17.05 Extended Cure Period. Notwithstanding anything in this Agreement to the contrary, in those circumstances under which we have the right to terminate this Agreement after notice to cure, we will have the right, to be exercised in our sole judgment, to grant to you, instead of a shorter cure period or immediate termination of this Agreement following your failure to cure, an extended period in which to cure the default. If we grant you such an extended cure period, it will not exceed six months from the last day of the cure period otherwise applicable to the default in question. You explicitly understand and agree that you have no right to any such extended cure period and that we have no obligation whatsoever to grant you any extended cure period, and that any election to grant you an extended cure period will not constitute a waiver of any of our rights under this Agreement or any related Agreement.

17.06 Your Failure to Pay Constitutes Your Termination of This Agreement. Your failure to timely cure any breach of your obligation to make payments of any Continuing Royalties, System Advertising Contributions or any other money due and owing to us or our Affiliates, or to timely cure any other material breach of this Agreement committed by you, in either instance following our notice to you that you have committed a breach of this Agreement and granting you an opportunity to cure such breach (if such activities are required of us prior to our terminating this Agreement), will be irrevocably deemed to constitute your unilateral rejection and termination of this Agreement and all related agreements between you and us or our Affiliates, notwithstanding that a formal notice of such termination(s) ultimately issues from us, and you shall never contend or complain otherwise.

17.07 Cross Default. Any default or breach by you, your affiliates and/or any guarantor of yours of the lease or sublease for the Closets by Design Location or of any other agreement between us or our Affiliates and you and/or such other parties will be deemed a default under this Agreement, and any default or breach of this Agreement by you and/or such other parties will be deemed a default or breach under any and all such other agreements between us or our Affiliates and you and/or any guarantor of yours. If the nature of the default under any other agreement would have permitted us (or our Affiliate) to terminate this Agreement if the default had occurred under this Agreement, then we will have the right to terminate all such other agreements in the same manner provided for in this Agreement for termination of this Agreement. Your "affiliates" include any persons or entities controlling, controlled by, or under common control with you.

17.08 Pending Leads and Pending Orders Following Termination Upon the termination or expiration of this Agreement, at our sole option, we may do any, some, and/or all of the following: 1) we may require you to immediately turn over to us or our designee all information regarding Leads in existence at the time of termination or expiration that have not entered into a contract with you ("Pending Leads"); 2) we may require you to refer all Pending Leads to us or our designee through a notice that we will provide to you; 3) we may direct you to have no contact with Pending Leads not approved in advance by us; and/or, 4) we may grant to you, and you agree to accept and perform consistent with the terms thereof, a limited license consistent with the terms of this Agreement to perform Custom Organizer Services for Pending Leads. Further, upon the termination or expiration of this Agreement, at our sole option, we may do any, some, and/or all of the following in relation to any and/or all customers who have entered into a contract for Custom Organizer Services, but any product ordered by such customer has not been installed at the time of termination ("Pending Order"): 1) we may grant to you, and you agree to accept and perform consistent with the terms thereof, a limited license consistent with the terms of this Agreement, to complete such contracts for Pending Orders; 2) we may require you to collect no more than 50% of the contract price of any such Pending Order contract, construct the product ordered by such customer in installation ready form, and ship such product to us or our Designee in which case we or our Designee will install the product as well as collect and retain the remaining 50% of the contract price of the Pending Order contract with no obligation to you; 3) we may require you not to enter into any contract that cannot be fully installed, serviced, and/or full contract price collected prior to the termination or expiration of this Agreement; and/or, 4) we may require you to transfer any, some, and/or all deposits, other sums of money, and/or compensation related to any Pending Order contract and assign such Pending Order contract to us or our designee. You agree that you will have no contact with any Pending Order customer not approved in advance by us. Nothing in this Section shall be deemed a waiver of any other section, subsection, and/or term of this Agreement including, but not limited to, the obligations set forth in Article 18 of this Agreement.

17.09 Continuance of Business Relations. Any continuance of business relations between you and us after the termination or expiration of this Agreement will not constitute, and may not be construed as, a reinstatement, renewal, extension or continuation of this Agreement unless you and an authorized officer of ours agree in writing to any such renewal, extension or continuation.

17.10 Notice Required By Law. If any valid, applicable law or regulation of a competent governmental authority with jurisdiction over this Agreement or the parties to this Agreement limits our rights of termination under this Agreement or requires longer notice or cure periods than those set forth above, then this Agreement will be considered modified to conform to the minimum notice, cure periods or restrictions upon termination required by the laws and regulations. We will not, however, be precluded from contesting the validity, enforceability or application of the laws or regulations in any action, proceeding, hearing or dispute relating to this Agreement or the termination of this Agreement.

17.11 Our Right to Send Notifications of Termination. Before or on the expiration or termination of this Agreement, we may give notice that the franchised Business is leaving the System and take any other action related to customers, suppliers and all other individuals or entities affected by such expiration or termination or which require or desire an identification of our System franchised Businesses.

18. FURTHER OBLIGATIONS AND RIGHTS OF THE PARTIES FOLLOWING TERMINATION OR EXPIRATION OF THIS AGREEMENT

18.01 Further Obligations and Rights Following Termination or Expiration of this Agreement. If this Agreement expires or terminates for any reason or is assigned by you, you will cease to be an authorized Closets By Design franchisee and you will lose all rights to the use of our Proprietary Marks, the Closets By Design System, all Confidential Information and know-how owned by us and any goodwill (including "local" goodwill) engendered by the use of our Proprietary Marks and/or attributed to your conduct of the franchised Business.

Upon the expiration or earlier termination of this Agreement for whatever reason, you agree to:

1. Make your books and records available to us for a termination/expiration audit as and when we request.
2. Within 30 days after termination or expiration, give us a final accounting and pay all Continuing Royalties, fees and other sums due and owing to us or our Affiliates, plus interest and any late fees.
3. Immediately pay all sums due and owing to any landlord, employees, taxing authorities, advertising agencies and all other third parties.
4. Immediately discontinue the use of the Proprietary Marks, and not operate or do business under any name or in any manner that might tend to give the general public the impression that you are operating a Closets By Design Business, or any similar business. You may not use, in any manner or for any purpose, directly or indirectly, any of our Confidential Information, trade secrets, procedures, forms, techniques, know-how or materials acquired by you by virtue of the relationship established by this Agreement, including (without limitation): Closets By Design services, products and programs; specifications or descriptions of our services and products; lists of customers, employees and independent contractors; product lists, price book information, customer records, our Manual and any Supplements to it; forms, advertising matter, marks, devices, signs, insignia, slogans and designs used in connection with the franchised Business or Location; telephone numbers listed in any telephone directory under any of the Proprietary Marks licensed under this Agreement or any similar designation or directory listings relating to the franchised Business; and, the systems, procedures, techniques, criteria, concepts, designs, advertising and promotion techniques, specifications, and all other components, specifications and standards, which comprise (or at the time of termination or expiration may comprise) a part of the Closets By Design System.
5. You may not identify yourself to third parties as a former franchisee of ours.
6. Take all necessary action to cancel any assumed name or equivalent registration that contains the Proprietary Mark "Closets By Design," or any other Proprietary Mark of ours, or any variant, within fifteen days following termination or expiration of this Agreement. If you fail or refuse to do so, we may, in your name, on your behalf and at your expense, execute all documents necessary to cause discontinuance of your use of the name "Closets By Design," or any related name used under this Agreement. You irrevocably appoint us as your attorney-in-fact to do so.
7. If we terminate because of your default or you terminate through failure to make payment following notice and opportunity to cure (pursuant to Section 17.04), you must pay us all losses

and expenses we incur as a result of the default or termination, including all damages, costs and expenses, and reasonable attorneys' and experts' fees directly or indirectly related thereto, such as (without limitation) damage inuring to our Proprietary Marks and reputation, travel and personnel costs and the cost of securing a new Business for the Territory. This obligation will give rise to and remain, until paid in full, a lien in our favor against any and all of assets, property, furnishings, equipment, signs, fixtures and inventory owned by the franchised Business at the time of termination and against any of your money which we are holding or which is otherwise in our possession.

8. Immediately deliver to us all training or other manuals furnished to you (including the Manual and Supplements to the Manual), computer software and database material, customer lists, product lists, price book information, records and files, documents, electronically stored records, instructions, display items, advertising and promotional material, any and all materials, signs and related items which bear our Proprietary Marks or slogans or insignias or designs, advertising contracts, forms and other materials or property of ours, and any copies of them in your possession which relate to the operation of the franchised Business. You may retain no copy or record of any of these items, except for your copy of this Agreement, any correspondence between the parties and any other documents that you reasonably need for compliance with any provision of law. You agree that the foregoing items, materials, list, files, software and other similar items will be considered to be our property for all purposes.
9. At our option, assign to us (or another franchisee, licensee, joint venture partner or other designee of ours) any interest which you have in any lease, sublease, right of entry or easement for the Closets By Design Location, and vacate the Closets By Design Location promptly and completely, rendering all necessary assistance to us to enable us to take prompt possession. If we exercise such option, we or such other party, as applicable, will indemnify and hold you harmless as provided in Section 6.02(B)(7) above and all pay you any amounts you theretofore paid or deposited with the lessor of the Location for security or prepaid rent.
10. Upon any termination of this Agreement by us for cause, we will have the right immediately to enter and take possession of your franchised Business to maintain continuous operation of the previously franchised Business, provide for orderly change of management and disposition of personal property, and otherwise protect our interests. If you dispute the validity of our termination of the franchise, we will nevertheless have the option (which you irrevocably grant) to operate the business pending the final, unappealed determination of the dispute by a court of competent jurisdiction. If a court of competent jurisdiction makes a final, unappealed determination that the termination was not valid, we agree to make a full and complete accounting for the period during which we operated the previously franchised Business.
11. If you own the Closets By Design Location, execute and deliver to us a lease for the Closets By Design Location on commercially reasonable terms embracing a lease period of at least 2 years following termination or expiration (it being agreed that the lease shall not exceed such two year period unless you are willing to provide such an extended term). If the parties cannot agree on such terms within a reasonable time, we will designate an independent appraiser. The appraiser's determination will be binding, and you must execute and deliver to us a lease for the Closets By Design Location on the terms determined by the appraiser to be commercially reasonable. You and we will each pay 50% of the fee charged by the independent appraiser. Upon your execution of the lease for the Closets By Design Location, you agree to vacate the Closets By Design Location promptly and completely, rendering all necessary assistance to us to enable us to take prompt possession.
12. Immediately execute all agreements necessary to effectuate the termination or expiration in a prompt and timely manner.
13. Cease using the telephone numbers listed in the Yellow Pages and White Pages of any telephone directories under the name "Closets By Design" or any other confusingly similar name or any other phone number used in connection with the franchised Business (including, without limitation, all employee land-line, cell phone and any other telephone numbers used in, via any technology, in connection with the operation of the franchised Business); or, upon our written demand, direct the telephone company to transfer the telephone numbers listed for the franchised Business or Location in the Yellow Pages and White Pages to us or to any other

person and location that we direct. You irrevocably appoint us as your attorney-in-fact to direct the telephone company to do so if you have not directed the telephone company to do so promptly following termination or expiration. If we do not elect to have the above telephone numbers transferred to us, you may institute no forwarding message to respond to callers to the above numbers.

14. Strictly comply with the post-termination/post-expiration covenants not to compete set forth in Article 13 of this Agreement (including those restricting your right to sell, assign, lease or otherwise grant possessory rights to your franchised Business and/or Closets by Design Location to a party intending to conduct a Competitive Business thereat).
15. Continue to abide by those restrictions pertaining to the use of our Confidential Information, trade secrets and know-how set forth in Article 12 of this Agreement.
16. Immediately surrender to us all computer software, data storage disks or tapes and other electronic media used in the operation of the franchised Business, access codes and passwords for same, printouts, other information pertaining to computer operations, codes, procedures and programming, all electronically-stored records, data and information. You agree not to destroy, damage, hide or take any steps to prevent us from obtaining any information that you had stored in the computer system of the franchised Business. You agree not to retain any printouts, disks or tapes containing any of the programs or data stored in the computer system but may retain copies of financial information derived there from necessary for the preparation of you and your Principals' tax returns; the satisfaction of creditors and/or lenders; and/or, for insurance and retirement plan ("ERISA") purposes, provided, however, that under no circumstance may you retain copies of, or otherwise preserve for your future use, any content in the CBD Manager Software program licensed to you concurrent with your entry into this Agreement.
17. After the termination or expiration of this Agreement, we, our franchisees or our other designees may, at our option, perform warranty work for your former customers. You must promptly reimburse us on demand for the cost of all such warranty work performed by us, our franchisees or other designees where the applicable warranty was either in your contract with the specific customer or was advertised by you at any time during your operation of the formerly-franchised business.
18. If we elect not to assume possession of the Closets By Design Location, promptly upon termination or expiration, perform all reasonable redecoration, remodeling, and effecting of physical changes to the Closets by Design Location and the franchised Business' décor, trade dress, color combination, signs and other physical characteristics, as we consider necessary in our reasonable business judgment to distinguish the location from a duly authorized Closets By Design Location.
19. Not make any statements, directly or indirectly, to any person or entity which would disparage, ridicule, embarrass, challenge, criticize or cast in a negative light us; any of our Affiliates; our or our Affiliates' officers, directors, shareholders, employees or contractors; any franchisee of ours or any Affiliate; the Closets By Design System; and/or, the Closets By Design franchise opportunity. This ban on disparaging statements applies to any and all forms of communication including, without limitation, print; broadcast; cable; other forms of mass media; private communications and correspondence; the Internet/Worldwide Web; at meetings, conferences or other gatherings; telephonic communications; and/or, any other means or mode of communication whatsoever.
20. If you have failed or omitted to make or cause to be made any de-identification, removal or change required above in this Section 18.01, then we will have the right, within 15 days of written notice to you, to enter upon the formerly-franchised Location and any other showrooms you maintained under this Agreement without being guilty of trespass, tort or other legal violation, and to make or cause to be made such de-identification, removal and changes at your expense, which expense you agree to pay to us promptly upon demand.

Upon the termination or expiration of this Agreement, we and our Affiliates will be free to solicit for employment and hire your employees.

18.02 Option to Purchase Your Franchised Business's Assets, Computers and Software.

A. Upon the termination or expiration of this Agreement for any reason, we, any of our Affiliates, and/or any nominee or designee we name are hereby granted an option, exercisable within 30 days after the termination or expiration becomes effective, to purchase as soon as practicable thereafter (including any period necessary for the obtaining of governmental approvals and consents of the concerned lessor) all of your operating assets relating to the franchised Business. The date on which such purchase is closed will be referred to as the "Closing Date". The following terms and conditions will apply to the option granted by this Section 18.02:

1. All leasehold improvements, furniture, fixtures, supplies, equipment, trade dress elements and inventory will be purchased at your original cost or for an amount equal to their fair market value, whichever is less. If you and we cannot agree on "fair market value", then an appraiser shall determine same in accordance with the procedures set forth in Section 18.02(B) below.
2. All transferrable permits, licenses and other governmental authorizations will be transferred or assigned to us, our affiliate, nominee or designee (as applicable) at the soonest possible time, specifically including any alcoholic beverage licensing, permits or authorizations.
3. All printed material, forms and other materials purchased from us under this Agreement will be purchased for an amount equal to their cost (if any).
4. All property, real or personal, sold to us or our affiliate, nominee or designee (as applicable) under this Section 18.02 must be free and clear of all liens, debts, claims, liabilities, leases, encroachments, covenants, conditions, restrictions, rights, rights of way and/or other encumbrances (except for tax liens and special and/or other assessments not delinquent) unless we, in our reasonable opinion (or that of our affiliate, nominee or designee, as applicable), determine that the existence of same either will not interfere with the proposed use of the property or that the existence of same are merely due to easements of record, zoning ordinances or statutes, use and occupancy restrictions of public record or other limitations which are generally applicable to similar properties in the vicinity.

You will convey to us (or our Affiliate, nominee or designee, as applicable) good and merchantable, full, legal, equitable and beneficial title to all of the foregoing assets by means of appropriate deeds, bills of sale and assignments containing warranties of title. You hereby irrevocably designate us as your attorney-in-fact and proxy to execute any and all instruments necessary and appropriate to effect such conveyance and will sign any other documents or agreements necessary for our appointment as such. We (or our Affiliate, nominee or designee, as applicable) will have the right at our option to assume any liabilities encumbering the assets sold under the provisions of this Article or any of the liabilities for which we would otherwise be indemnified by you pursuant to Section 8.10 of this Agreement, and reduce the consideration payable to you accordingly. You will pay all transfer taxes and recording fees, if any.

All rents, interest, assessments, taxes and other charges or royalties related to the assets to be conveyed, the payment period of which began before the Closing Date, will be prorated to the Closing Date on the basis of the most recent rates available, and the prorated amount will be added to or subtracted from, as the case may be, the consideration payable to you.

You agree to use your best efforts to assist us (or our affiliate, nominee or designee, as applicable) in obtaining any government or other approvals or consents necessary to carry out the terms and intent of this Section 18.02.

B. Appraisals. If you and we cannot agree within a reasonable time on the fair market value of any assets we, our affiliate, nominee or designee acquire from you pursuant to this Section 18.02, or the commercially reasonable terms of any lease we require you to enter into for land and facilities owned by you (or any affiliate) and utilized by the franchised Business, then such dispute will be resolved by means of an appraisal conducted in the following fashion. If, within 60 days following your receipt of our notice that we intend to exercise one or more of the options set forth above, you and we cannot agree on the fair market value of the item in question, then you and we within the next seven days shall each select one appraiser and notify the other party of its designee. The two appraisers you and we select will be instructed to meet within thirty days following their selection for the purpose of selecting a third appraiser to serve with them. If the two appraisers you and we select cannot agree on the selection on the third appraiser within 15 days after the selection of the

last of them, then you shall select the third appraiser from a list of three appraisers we propose in writing. In the event our disagreement pertains to the commercially reasonable terms of any lease you are required to enter into with us for the Closets by Design Location (if you own it), then each appraiser selected must have received the MAI designation and must be actively engaged in appraisal work in the county in which the Closets by Design Location is located. The appraisers' determination of the fair market value of any item(s) we intend to purchase from you, or the commercially reasonable terms of the lease for your owned Closets By Design Location, will be binding on both of us. If following the appraisal we exercise any of the options set forth above, then you and we will each pay one half (1/2) of the cost of any and all such appraisals. If we do not elect to exercise any option provided herein following the appraisal, then we alone shall bear the cost of all of the appraisal. If we exercise any of the options granted to us above, we will have the right to set off from all amounts due to you any and all amounts which are due and owing by you to us and our affiliates.

C. **Timing.** If we exercise our option to purchase (or, with respect to your Closets by Design Location, lease) any of the assets of your franchised Business as provided in this Section 18.02, then the Closing Date shall be no later than sixty days after either you and we agree on the fair market value of the assets in question (or, with respect to the Closets by Design Location, the commercially reasonable terms for our lease for such Closets by Design Location) or, if you and we cannot agree on same, no later than sixty days after the determination of such fair market value/commercially reasonable terms furnished by the appraisers provided for in Section 18.02(B) above.

18.03 **No Prejudice.** The termination or expiration of this Agreement will be without prejudice to our rights against you and will not relieve you of any of your obligations to us at the time of termination or expiration, or terminate your obligations that by their nature survive the expiration or termination of this Agreement.

19. UNAVOIDABLE DELAY OR FAILURE TO PERFORM (*FORCE MAJEURE*)

19.01 **Unavoidable Delay or Failure to Perform (*Force Majeure*).** Any delay in our or your performance of any duties under this Agreement, or any non-performance of such duties caused by fire; floods, earthquakes, other natural disasters; war; civil commotion; and terrorist acts will not constitute a breach or cause a default under this Agreement, provided, however, that we or you (as applicable) will take all steps reasonably possible to mitigate damages caused by such failure or delay.

Notwithstanding the foregoing, if any such failure or delay continues for more than 180 days, we or you (as applicable) will have the right at any time thereafter during the continuance of such failure or delay to terminate this Agreement upon 30 days advance written notice to you.

20. INTEGRATION OF AGREEMENT

20.01 **Integration of Agreement; No Oral Modification.** This Agreement, all Exhibits to this Agreement and all ancillary agreements executed contemporaneously with this Agreement constitute the entire agreement between the parties with reference to the subject matter of this Agreement and supersede any and all prior negotiations, understandings, representations and agreements; provided, however, that nothing in this sentence is intended to disclaim the representations we made in the Franchise Disclosure Document that we provided to you. This Agreement may not be amended orally but may be amended only by a written instrument signed by the parties.

21. NOTICES

21.01 **Notices.** Any notice required or permitted to be given under this Agreement must be in writing; must be delivered to the other party either personally or by a recognized overnight delivery service capable, through "signature capture" or otherwise, of documenting delivery or attempted delivery of the notice, or, as provided below, by electronic mail; and, will be effective on the date that delivery either is effected, or is documented to have been first attempted. We reserve the right to designate in our Manual a now or hereafter developed mode of electronic communication to facilitate our giving notices to each other, but only if the mode of communication we specify is capable of affording evidence of delivery or attempted delivery.

Any notice to us will be addressed both to us and our counsel at:

CBD FRANCHISING, INC.
ATTN: JERRY EGNER, PRESIDENT
13272 GARDEN GROVE BLVD.
GARDEN GROVE, CA 92843-2205

with copies to:

DAVID J. KAUFMANN, ESQ.
KAUFMANN GILDIN & ROBBINS LLP
767 THIRD AVENUE, 30TH FLOOR
NEW YORK, NY 10017

and

CHRISTOPHER S. REEDER, ESQ.
CSREEDER, PC
11766 WILSHIRE BOULEVARD, SUITE 1470
LOS ANGELES, CALIFORNIA 90025
Any notice to you will be addressed to you at:

A copy of any such notice shall concurrently be sent in the same manner to your counsel (if any) identified below:

Either party to this Agreement may, in writing, on 10 days' notice, inform the other of a new or changed address or addressee(s) to which notices under this Agreement should be sent.

22. APPROVALS, WAIVER AND DELAY; INJUNCTION; MISCELLANEOUS

22.01 Approvals, Waiver and Delay. Whenever this Agreement requires you to secure our prior approval or consent, such approval or consent must be obtained in writing and must be timely sought. No waiver or delay in either party's enforcement of any breach of any term, covenant or condition of this Agreement will be construed as a waiver by that party of such breach or any preceding or succeeding breach, or any other term, covenant or condition of this Agreement. Without limiting any of the foregoing, the acceptance of any payment specified to be paid by you under this Agreement will not be, nor constitute, a waiver of any breach of any term, covenant or condition of this Agreement. Further, if we afford you a waiver, approval, consent or suggestion in connection with this Agreement, we do not thereby make any warranty or guarantee upon which you may rely and by doing so we assume no liability or obligation to you.

22.02 Injunction. You explicitly affirm and recognize the unique value and secondary meaning attached to the Closets By Design System and the Proprietary Marks. Accordingly, you agree that any non-compliance by you with the terms of this Agreement, or any unauthorized or improper use of the Closets By Design System or the Proprietary Marks by you, will cause irreparable damage to us and other Closets By Design franchisees. You therefore agree that if you engage in this non-compliance, or unauthorized and/or improper use of the Closets By Design System or Proprietary Marks, during or after the period of this Agreement, we will be entitled to both temporary and permanent injunctive relief against you from any court of competent jurisdiction, in addition to all other remedies which we may have at law. You consent to the entry of these temporary and permanent injunctions without the requirement that we post a bond of any type or nature, or any other form of security, and without the requirement to prove the adequacy of money damages as a remedy, and without waiving any other rights or remedies at law or in equity. You will be responsible for payment of all costs and expenses, including attorneys' and expert fees, which we and/or our Affiliates may incur in connection with our efforts to secure such injunctive relief.

22.03 Notice of Our Alleged Breach. You agree to give us immediate written notice of any alleged breach or violation of this Agreement after you have constructive or actual knowledge of, believe, determine or are of the

opinion that there has been an alleged breach of this Agreement by us, including any acts of misfeasance or nonfeasance.

22.04 Our Right To Cure Defaults. In addition to all other remedies granted pursuant to this Agreement, if you default in the performance of any of your obligations or breach any term or condition of this Agreement or any related agreement, then we may, at our election, immediately or at any time thereafter, without waiving any claim for breach under this Agreement and without notice to you, cure the default on your behalf. Our cost of curing the default and all related expenses will be due and payable by you on demand.

22.05 Our Withholding of Consent – Your Exclusive Remedy. In no event may you make any claim for money damages based on any claim or assertion that we have unreasonably withheld or delayed any consent or approval to a proposed act by you under the terms of this Franchise Agreement. You waive any such claim for damages. You may not claim any such damages by way of set-off, counterclaim or defense. Your sole remedy for the claim will be an action or proceeding to enforce the Agreement provisions, for specific performance or for declaratory judgment. This provision shall not apply to our withholding of consent under Section 14.05 of this Agreement if - - but only if - - you promptly (no later than 10 days following our alleged wrongful withholding of consent) seek a preliminary injunction requiring us to give consent; fail to obtain such a preliminary injunction; and, thereafter, we are nevertheless adjudicated by a final, unappealable judgment to have wrongly withheld our consent.

22.06 Execution, Construction and Interpretation; Further Acts

A. This Agreement may be executed in multiple counterparts, each of which will be considered an original and all of which together will constitute one and the same instrument. Electronic, DocuSign, and facsimile execution signatures will be considered as binding and conclusive as if original.

B. The titles and subtitles of the various articles and sections of this Agreement are inserted for convenience and will not affect the meaning or construction of any of the terms, provisions, covenants and conditions of this Agreement. The language of this Agreement will in all cases be construed simply according to its fair and plain meaning and not strictly for or against us or you.

C. It is agreed that if any provision of this Agreement is capable of two constructions, one of which would render the provision void and the other of which would render the provision valid, then the provision will have the meaning that renders it valid.

D. The parties agree to execute all other documents and perform all further acts necessary or desirable to carry out the purposes of this Agreement.

E. Each reference in this Agreement to a business entity, corporation or partnership will also refer to a limited liability company, general or limited partnership, and any other entity or similar organization. Each reference to the organizational documents, shareholders, directors, officers and stock of a corporation in this Agreement will also refer to the functional equivalents of the organizational documents, shareholders, directors, officers and voting and/or equity rights, as applicable, in the case of a limited liability company, general partnership, limited partnership or any other entity or similar organization (this specifically includes members and managers, general and limited partners, membership interests and general and limited partnership interests).

F. The terms “Franchisee” and “you” as used in this Agreement will refer to each person executing this Agreement as Franchisee, whether that person is one of the spouses, partners, proprietors, shareholders, trustees, trustors or beneficiaries or persons named as included in you and will apply to each of these persons as if he/she were the only named Franchisee in this Agreement. If you are a married couple, both husband and wife executing this Agreement will be liable for all your obligations and duties as Franchisee under this Agreement as if the spouse were the sole Franchisee under this Agreement. If you are a partnership or proprietorship, or if more than one person executes this Agreement as Franchisee, each partner, proprietor or person executing this Agreement will be liable for all obligations and duties of Franchisee under this Agreement. If you are a trust, each trustee, grantor and beneficiary signing this Agreement will be liable for all the obligations and duties of Franchisee under this Agreement. If you are a business entity, all owners of such entity executing this Agreement will be liable for all obligations and duties of Franchisee under this Agreement as if each such owner or the sole Franchisee under this Agreement.

22.07 Severability. Nothing contained in this Agreement may be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation required to be made applicable to this Agreement, the

latter will prevail, but the affected provision of this Agreement will be curtailed and limited only to the extent necessary to bring it within the requirement of the law. If any article, section, sentence or clause of this Agreement is held to be indefinite, invalid or otherwise unenforceable, the entire Agreement will not fail for this reason, and the balance of the Agreement will continue in full force and effect, unless said provision pertains to the payment of monies due to us or our affiliates under this Agreement of any type or nature whatsoever, in which case we may at our option terminate this Agreement. If any court of competent jurisdiction deems any provision of this Agreement (other than for the payment of money) so unreasonable as to be unenforceable as a matter of law, the court may declare a reasonable modification of this Agreement and this Agreement will be valid and enforceable, and the parties agree to be bound by and perform this Agreement as so modified.

22.08 Survival

Any provision of this Agreement that imposes an obligation following the termination or expiration of this Agreement will survive the termination or expiration and will continue to be binding upon the parties to this Agreement. This Agreement will be binding upon and inure to the benefit of the parties, their heirs, successors and assigns.

22.09 Principals

Your "Principals" consist of every individual and entity owning any equity interest in any franchisee entity. Every current Principal and all future Principals when they assume such status must execute this Agreement and the Guarantee set forth in Exhibit 5. In the event of the death of any guarantor, we may require replacement guarantees sufficient in our sole business judgment to provide us with the same protection as we had originally bargained for.

If you are in breach or default under this Agreement, we may proceed directly against each such individual and/or entity guarantor without first proceeding against you and without proceeding against or naming in the action or proceeding any other such guarantor. Your obligations and those of each such guarantor will be joint and several. Notice to or demand upon one such guarantor will be considered notice to or demand upon you and all such guarantors. No notice or demand need be made to or upon all such guarantors. The cessation of or release from liability of you or any such guarantor will not relieve you or any other guarantor, as applicable, from liability under this Agreement, except to the extent that the breach or default has been remedied or money owed has been paid.

22.10 Compliance with U.S. Anti-Terrorism and Other U.S. Federal Laws

A. You and each of the Principals certify that none of you, the Principals, employees, or anyone associated with you is listed in the Annex to Executive Order 13224 (available at <http://treasury.gov/offices/enforcement/ofac/sanctions/terrorism.html>). You covenant not to hire or have any dealings with a person listed in the Annex. You certify that you have no knowledge or information that, if generally known, would result in you, the Principals, employees or anyone associated with you being listed in the Annex to Executive Order 13224. You and each of the Principals will comply with and assist us to the fullest extent possible in our efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, you and each of the Principals certify, represent and warrant that none of your respective property or interests is subject to being "blocked" under any of the Anti-Terrorism Laws and that you and the Principals are not otherwise in violation of any of the Anti-Terrorism Laws. You are solely responsible for ascertaining what actions must be taken by you to comply with all such Anti-Terrorism Laws. You specifically acknowledge and agree that your indemnification responsibilities as provided in this Agreement pertain to your obligations under this section 22.10. Any misrepresentation by you under this section 22.10 or any violation of the Anti-Terrorism Laws by you, any of the Principals, or employees will constitute grounds for immediate termination of this Agreement and any other agreement you entered into with us or one of our Affiliates. "Anti-Terrorism Laws" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists, and any other requirements of any United States governmental authority (including, without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

B. Neither you nor any Principal conducts any activity, or has failed to conduct any activity, if such action or inaction constitutes a money laundering crime, including any money laundering crime prohibited under any applicable Anti-Terror Legislation.

C. You and the Principals agree that you will notify us in writing immediately of the occurrence of any event that renders the foregoing representations and warranties of this section 22.10 incorrect. You represent and warrant that, as of the date of this Agreement and at all times during the Term hereof, and to your actual or constructive knowledge, neither you, any Principal of yours, any affiliate of yours, any individual or entity having a direct or indirect ownership interest in you or any such affiliate (including any shareholder, general partner, limited partner, member or any type of owner), any officer, director, manager, or management employee of any of the foregoing, nor any funding source you utilize is or will be identified on the list of the U.S. Treasury's Office of Foreign Assets Control (OFAC); is directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States government or by any individual that is subject to an embargo imposed by the United States government; is acting on behalf of any country or individual that is subject to such an embargo; or, is involved in business arrangements or other transactions with any country or individual that is subject to an embargo. You agree that you will immediately notify us in writing immediately upon the occurrence of any event which would render the foregoing representations and warranties incorrect. Notwithstanding anything to the contrary in this Agreement, you may not allow, effect or sustain any transfer, assignment or other disposition of this Agreement to a "Specially Designated National or Blocked Person" (as defined below) or to an entity in which a "Specially Designated National or Blocked Person has an interest. For the purposes of this Agreement, "Specially Designated National or Blocked Person" means: (i) a person or entity designated by OFAC (or any successor officer agency of the U.S. government) from time to time as a "specially designated national or blocked person" or similar status; (ii) a person or entity described in Section 1 of U.S. Executive Order 13224, issued on September 23, 2001; or, (iii) a person or entity otherwise identified by any government or legal authority as a person with whom you (or any of your owners or affiliates) or we (or any of our owners or affiliates) are prohibited from transacting business.

D. You and the Principals agree that you will notify us in writing immediately of the occurrence of any event that renders the foregoing representations and warranties of this section 22.10 incorrect.

[Your Initials: _____ Our Initials: _____]

22.11 **No Third-Party Beneficiaries.** This Agreement is entered into solely between you and us. Other than our Affiliates or as expressly set forth in this Agreement, there is no intended third-party beneficiary of this Agreement and you agree that none is to be presumed or deemed to exist.

22.12 **Our Business Judgment.** Whenever this Agreement or any related agreement grants, confers or reserves to us the right to take action, refrain from taking action, grant or withhold our consent or grant or withhold our approval, unless the provision specifically states otherwise, we will have the right to engage in such activity at our option using our business judgment, taking into consideration our assessment of the long-term interests of the System overall. You and we recognize, and any court or judge is affirmatively advised, that if those activities and/or decisions are supported by our business judgment, neither said court, said judge nor any other person reviewing those activities or decisions will substitute his, her or its judgment for our judgment. When the terms of this Agreement specifically require that we not unreasonably withhold our approval or consent, if you are in default or breach under this Agreement, any withholding of our approval or consent will be considered reasonable.

23. VENUE; GOVERNING LAW AND LEGAL ACTIONS

23.01 **Court Venue.** Any action arising out of or related to this Agreement, any breach of this Agreement, the relations between the parties and any and all disputes between the parties, whether sounding in contract, tort, or otherwise, will be resolved by litigation instituted exclusively in either the Superior Court of the State of California, County of Los Angeles or the United States District Court for the Central District of California. You (and your affiliates, and the owners, members, officers, directors or managers of each of the foregoing) hereby irrevocably submit themselves to the jurisdiction of any such court and waive all questions of personal jurisdiction for the purpose of carrying out this provision. You (and each of your affiliates, and the owners, members, officers, directors or managers of each of the foregoing) agrees that any dispute as to the venue for litigation will be submitted to and resolved exclusively by such aforementioned court. Notwithstanding the foregoing, however, with respect to any action for monies owed, injunctive or other extraordinary or equitable relief, or involving possession or disposition of, or other relief relating to, your franchised Business or Closets by

Design Location, we may bring such an action in any state or federal district court which has jurisdiction. You, on behalf of yourself and your affiliates, and the owners, members, officers, directors or managers of each of the foregoing, hereby waive and covenant never to assert or claim that this venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of *forum non conveniens*). You further hereby waive and covenant never to assert or claim that such courts lack personal jurisdiction over you. In the event both such courts lack jurisdiction to enter any requested injunctive relief, an action or proceeding requesting such relief may be brought before any court having jurisdiction to grant such relief. The parties agree that this Section shall not be construed as preventing either party from removing an action or proceeding from state to federal court.

[Your Initials: _____ Our Initials: _____]

23.02 Waiver of Punitive Damages. In no event will either party hereto be liable to the other for punitive damages in any action or proceeding arising out of or relating to this Agreement; any breach, termination, cancellation or non-renewal of this Agreement; or, in any other action or proceeding whatsoever between the parties to this Agreement and/or any of their affiliates. You and we hereby waive and covenant never to advance any such claim for punitive damages. You and we hereby covenant our understanding that in no event shall treble damages available or awarded under the Lanham Act be deemed to constitute "punitive damages".

[Your Initials: _____ Our Initials: _____]

23.03 Attorneys' Fees. Except as otherwise provided in this Agreement, if you or we become a party to any action or proceeding arising out of or relating to this Agreement, any and all related agreements, the franchised Business or the Closets By Design Location; as a result of any claimed or actual act, error or omission of the other party (and/or any of the other party's officers, directors, shareholders, management, employees, contractors and/or representatives) or the franchised Business; or if either of us becomes a party to any litigation or any insolvency proceeding involving the other pursuant to any bankruptcy or insolvency code (including any adversary proceedings in conjunction with bankruptcy or insolvency proceedings), then the losing party will be liable to, and must promptly reimburse the prevailing party for, the attorneys' fees, experts' fees, court costs, travel and lodging costs and all other expenses incurred by the non-prevailing party in such action or proceeding regardless of whether such action or proceeding proceeds to judgment. In addition, the prevailing party will be entitled to add all costs of collection, interest, attorneys' fees and experts' fees to a proof of claim in any insolvency or bankruptcy proceeding filed by the other party. A party will be deemed to "prevail" hereunder if it succeeds in securing some or all of the relief sought in any such proceeding (by judgment, decree, order, settlement by the other party or otherwise) or if it prevails in the defense of any such proceeding. You acknowledge, however, that certain provisions of this Agreement provide that should we prevail in certain legal actions or proceedings against you, you must reimburse us for all costs and expenses incurred in connection with such legal actions or proceedings (including any appeal thereof), including attorneys' fees, experts' fees, court costs and all other expenses we incur.

23.04 Attorneys Fees – Third Party Actions. If we become a party to any action or proceeding commenced or instituted against us by a third party arising out of or relating to any claimed or actual act, error or omission of yours and/or any of your officers, directors, shareholders, management, employees, contractors and/or representatives (the "Franchisee Party(ies)") of your franchised Business by virtue of statutory, "vicarious", "principal/agent" or other liabilities asserted against or imposed on us as a result of our status as Franchisor; or if we become a party to any litigation or any insolvency proceeding involving you pursuant to any bankruptcy or insolvency code (including any adversary proceedings in conjunction with bankruptcy or insolvency proceedings), then you will be liable to, and must promptly reimburse us for, the reasonable attorneys' fees, experts' fees, court costs, travel and lodging costs and all other expenses we incur in such action or proceeding regardless of whether such action or proceeding proceeds to judgment. In addition, we will be entitled to add all costs of collection, interest, attorneys' fees and experts' fees to our proof of claim in any insolvency or bankruptcy proceeding you file.

23.05 Costs of Enforcement. The prevailing party will be entitled to recover from the other party reasonable attorneys' fees, experts' fees, court costs and all other expenses of litigation, in any action instituted against the other party to secure or protect the prevailing party's rights under this Agreement, or to enforce the terms of this Agreement, or in any action commenced or joined in by the other party against the prevailing party.

23.06 Governing Law. The Lanham Act (15 U.S.C. §1051 *et seq.*) governs any issue involving the Proprietary Marks. To the extent applicable, the laws of the State where the Territory is govern all issues involving (i) the non-competition covenants set forth in Section 13.01 and 13.02, (ii) modification of this Agreement while it is in

effect and (iii) the maximum rate of interest that may be charged under this Agreement. Nothing in this Agreement is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California or any other state, which would not otherwise apply. Except as otherwise provided in this section 23.06, this Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to California's (or any other state's) choice of law or conflicts of law principles.

23.07 Waiver of Jury Trial. The parties to this Agreement (as denominated in Section 23.01) explicitly waive their respective rights to a jury trial in any litigation between them and hereby stipulate that any such trial shall occur without a jury.

23.08 No Consolidated, Association, Representative, or Class Actions. You and the other Franchisee Parties may only pursue any claim you have against us or the other Indemnitees in an individual legal action or proceeding. Neither you nor any other Franchisee Party shall join or combine its/their legal action or proceeding in any manner with any action or claim of any other Closets by Design franchisee, franchise owner, franchisee guarantor, or other claimant, nor will you or any other Franchisee Party maintain any action or proceeding against us and the other Indemnitees in a class, representative, or association action, whether as a representative, association member, or as a member of a class or purported class, nor will you or any other Franchisee Party seek to consolidate, or consent to the consolidation of, all or part of any action or proceeding by any of them against us or the other Indemnitees with any other litigation against us or such other Indemnitees.

23.05 Limitation on Actions. Any and all legal actions or proceedings brought by you against us or the other Indemnitees arising out of or related to this Agreement or any related agreement; any breach of this Agreement or any related agreement; the relations between such parties; and, any and all disputes between such parties, whether sounding in law or equity, must be commenced within two years from the occurrence of the acts, errors and/or omissions giving rise to such legal action or proceeding. If not, then you irrevocably covenant and agree that such action or proceeding shall be barred.

24. YOUR REPRESENTATIONS AND ACKNOWLEDGMENTS

24.01 Your Representations. You represent and warrant to us, with the intention that we are relying on your representations and warranties in entering into this Agreement, that:

1. If you are a business entity (including a corporation, limited liability company, general partnership or limited partnership), you are organized under the laws of the state of your principal place of business (or another state which you have identified to us) and your business entity is in good standing with and qualified to do business in each state and political/governmental subdivision having jurisdiction over your franchised Business.
2. If you are business entity, you have all requisite power and authority to execute, deliver, consummate and perform this Agreement, and all necessary business entity proceedings have been duly taken to authorize the execution, delivery and performance of this Agreement.
3. This Agreement has been duly authorized, executed and delivered by you, includes your legal, valid and binding obligations, and will be binding and enforceable upon you and your successors and assigns in accordance with its terms when executed by both parties.
4. You do not have any material liabilities, adverse claims, commitments or obligations of any nature as of the date of execution of this Agreement, whether accrued, unliquidated, absolute, contingent or otherwise which are not reflected as liabilities on the balance sheets of your current financial statements which you furnished to us before the execution of this Agreement.
5. As of the date of execution of this Agreement, there are no actions, suits, proceedings or investigations pending or, to your knowledge or the knowledge any of your officers, directors, shareholders, partners, members, managers, Guarantors, or any other owner of a direct or indirect, partial or whole interest in you (as applicable), after due inquiry, threatened, in any court or arbitral forum, or before any governmental agency or instrumentality, nor to the best of your knowledge or the knowledge of any such persons or entities (after due inquiry) is there any basis for any claim, action, suit, proceeding or investigation which affects or could affect, directly or indirectly, any of your assets, properties, rights or business; your right to operate and use your assets, properties or rights to carry on your business; and/or, which affects or could affect

your right or ability to assume and carry out in all respects the duties, obligations and responsibilities specified in this Agreement.

6. All of your representations and warranties contained in this Agreement are complete, correct and accurate as of the date of execution of this Agreement and will survive any termination or expiration of this Agreement.

24.02 Your Acknowledgments. You represent, warrant and acknowledge to us, with the intention that we will be relying thereon in entering into this Agreement, that:

1. You have received from us a copy of our Franchise Disclosure Document, together with a copy of all proposed agreements relating to the sale of the franchise, at least fourteen calendar days before the execution of this Agreement or at least fourteen calendar days before the payment by you to us of any consideration in connection with the sale or proposed sale of the franchise granted by this Agreement.
2. You understand that we do not represent that you will have the ability to procure any required license or permit that may be necessary to the offering of one or more of the services or products contemplated to be offered by the franchised Business.
3. You affirm that all information set forth in all applications, financial statements and submissions to us are true, complete and accurate in all respects.

25. EFFECTIVENESS OF AGREEMENT

25.01 Effectiveness of Agreement

The submission of this Agreement to you does not constitute an offer. This Agreement will become effective only upon the execution of this Agreement by both you and us.

THIS AGREEMENT WILL NOT BE BINDING ON US UNLESS AND UNTIL IT HAS BEEN ACCEPTED AND SIGNED BY AN AUTHORIZED OFFICER OF OURS.

YOU ACCEPT AND AGREE TO EACH AND ALL OF THE PROVISIONS, COVENANTS AND CONDITIONS OF THE FOREGOING AGREEMENT.

[Signature page follows.]

Dated: _____, 20 ____.

FRANCHISEE:

Print name of Franchisee

By: _____
Signature of Officer

Print Name and Title of Officer

PRINCIPALS

Dated: _____, 20 ____.

Print Name of Principal

Signature of Principal

Dated: _____, 20 ____.

Print Name of Principal

Signature of Principal

Dated: _____, 20 ____.

Print Name of Principal

Signature of Principal

Dated: _____, 20 ____.

FRANCHISOR:

CBD FRANCHISING, INC.

By: _____
Jerry Egner, President

EXHIBIT 1 - FRANCHISED TERRITORY; CLOSETS BY DESIGN LOCATION; POPULATION OF THE TERRITORY; NUMBER OF HOUSEHOLDS IN THE TERRITORY; MARKET DEVELOPMENT FEE; ASSUMED BUSINESS NAME

The Territory licensed to you is described as follows:

If the Closets By Design Location is not shown below at the signing of the Franchise Agreement, then the Closets By Design Location will be added below after our review and approval:

According to our data, the Territory has a population of approximately _____.

According to our data, the number of households in the Territory is approximately _____.

Pursuant to Section 5.03 of the Franchise Agreement, you agree to pay a Market Development Fee equal to _____.

Your assumed business name will be Closets By Design. And you must file an appropriate assumed name or fictitious name certificate.

**EXHIBIT 1-A
MINIMUM MONTHLY LOCAL ADVERTISING EXPENDITURE REQUIREMENTS**

**(IN 000'S)
TOTAL HOUSEHOLDS LICENSED TO FRANCHISEE (IN 000'S)**

Months Following Advertising Date	180-225	226-300	301-375	376-450	451-530	531-601	611-700	701-800	801-900	901-1000	1001-1150	1151-1300	1301-1500	1501-1700	1701-1900	1901
1-4	10	13	13	13	13	13	14	14	16	16	16	16	16	16	16	16
5-8	13	16	16	16	16	16	16	17	18	18	18	18	20	20	20	20
9-12	16	18	18	20	20	18	18	20	21	21	21	21	22	22	23	23
13-18	17	20	20	21	21	21	21	22	23	23	23	23	25	25	26	26
19-24	18	20	21	22	22	23	23	25	25	25	26	26	27	29	30	31
25-30	20	21	22	22	23	25	26	26	27	27	29	29	30	31	34	35
31-36	20	21	22	23	25	26	27	29	30	31	33	33	33	35	38	39
37-42	21	22	23	23	26	27	29	29	30	31	34	35	36	38	42	44
43-48	21	22	23	25	26	27	29	30	31	33	35	36	39	42	46	48
49-54	22	23	25	26	27	29	30	31	33	34	36	38	42	44	49	52
55-60	22	23	25	26	27	29	30	31	33	35	38	39	43	47	52	55
61-66	22	23	25	26	27	29	30	31	33	35	38	42	43	47	52	55
67-72	23	25	26	27	29	30	31	33	34	38	40	43	44	48	53	57
73-78	25	25	27	29	31	31	34	35	36	39	42	46	47	51	56	59
79-84	25	26	29	30	33	33	35	36	38	42	43	47	48	52	57	61
85-90	26	27	30	31	34	34	36	38	39	43	46	48	49	53	59	64
91-96	26	27	31	33	35	35	38	39	40	46	47	51	51	56	61	65
97-102	27	29	33	34	36	36	39	40	42	48	49	52	52	57	62	68
103-108	27	30	34	35	38	38	40	42	44	49	52	53	53	59	64	69
109-114	29	30	35	36	39	40	42	43	46	51	53	55	55	60	66	72
115-120	29	31	35	38	40	42	43	44	47	52	56	56	56	61	68	74

EXHIBIT 2 - PROPRIETARY MARKS

The Proprietary Marks as defined in Section 1.02 of the Franchise Agreement will consist of:

1. CLOSETS BY DESIGN
2. The following name logo and stylized name:



and such other and further Proprietary Marks (as defined in Section 1.02 of the Franchise Agreement) that we may from time to time license to you in conjunction with and addition to the Proprietary Marks listed above. Any such other and further Proprietary Marks will be deemed a part of this Exhibit 2.

EXHIBIT 3 - SOFTWARE LICENSE AGREEMENT

This Software License Agreement (“Agreement”), dated as of _____ (the “Effective Date”) is entered into by and between CBD Franchising, Inc., a California corporation (“Licensor”) and _____ (“Licensee”) with respect to the following circumstances.

WHEREAS, pursuant to that certain Franchise Agreement, dated as of _____, entered into by and between Licensor and Licensee (the “Franchise Agreement”), Licensor granted Licensee a license and franchise (collectively, the “Franchise”) to operate a Closets By Design Business within the Territory described in the Franchise Agreement on the terms set forth therein;

WHEREAS, Licensor has agreed on the terms set forth herein to grant Licensee a personal, non-transferable, non-exclusive, limited license to use the Licensed Materials (as defined below) solely for use in operating Licensee’s Franchise during the term of the Franchise Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Licensee and Licensor agree as follows:

ARTICLE I RIGHT TO USE LICENSED MATERIALS

1.01 Grant of License.

(a) Software. Licensor is the owner of all right, title and interest in and to (i) the CBD Manager™ software program and any Third Party Software (as defined below) (collectively, the “Licensed Software”), (ii) documentation accompanying the Licensed Software (the “Licensed Documentation”), including, without limitation, Licensor’s printed “user manual,” and all information provided on Licensor’s Intranet Site (as defined below), (iii) any and all subsequent derivative works, versions, modifications and updates of the Licensed Software (“Subsequent Software”), and (iv) all content, software, text, pictures, photographs, graphics, source code and object code on the Internet website www.gointranet.com/closetsbydesign.com or any other Internet website made available to Licensee by Licensor hereunder for the purpose of permitting Licensee to access, view, download and install Licensed Software or Subsequent Software (the items described in clauses (i) through (iv) of this sentence are collectively referred to herein as the “Software”) or to otherwise support and provide information concerning the Software and Licensed Documentation to Licensee and to permit Licensor to access, view and copy the Information (defined below) (collectively, the “Intranet Site”, and together with the Information, Software and Licensed Documentation, the “Licensed Materials”), without regard to the media on which, or the manner by which, the Licensed Materials are distributed or the equipment on which they are installed. Although Licensee may own the medium on which the Licensed Materials may be recorded, Licensor retains all right, title and interest in and to the Licensed Materials. The Licensed Materials include, without limitation, all source and object code for the Licensed Materials. Subject to the terms of this Agreement, and provided all fees owed to Licensor by Licensee pursuant to Article 9 of this Agreement are timely and fully paid, Licensor hereby grants to Licensee a limited, personal, non-transferable and non-exclusive right to use the Licensed Materials solely for use in operating Licensee’s Franchise consistent with the terms of the Franchise Agreement during the Term in the Territory (the “License”). Licensee may use the Licensed Materials solely as installed by Licensor (or as installed by Licensee if so permitted by Licensor in writing) on one computer server permanently located at the Franchise’s principal place of business (the “Permitted Installation Location”), and users’ access to such server shall be restricted to computers located at the Permitted Installation Location. The License hereunder excludes the right to sublicense, and Licensee shall not have the right to sublicense any of the Licensed Materials to any person or entity.

(b) Third Party Software. Subject to the terms of any software licenses Licensor has obtained from a third-party licensor (“Third Party Software”), if applicable, Licensor grants Licensee a personal, limited, non-exclusive, non-transferable (including no right to sublicense) sublicense to use the Third Party Software solely in connection with Licensee’s use of the Software and in the operation of Licensee’s Franchise and subject to the terms of this Agreement.

(c) Ownership. As between Licensor and Licensee, Licensor is and shall be the owner of all right, title and interest in and to the Licensed Materials and all derivative works thereof, and if Licensee is found to have

any interest in any Licensed Materials, then Licensee hereby irrevocably assigns and transfers all right, title and interest therein, including, without limitation, any copyright (and all renewals, extensions and revivals thereof) throughout the universe, in perpetuity, to Licensor. Licensee will, upon request, execute and deliver to Licensor any further documents consistent herewith which Licensor reasonably deems necessary to evidence and effectuate all or any of Licensor's rights hereunder. If Licensee fails to execute and deliver such documents within five business days after written request therefore by Licensor, then Licensor may execute such documents in Licensee's name, and for that purpose, Licensee hereby appoints Licensor as Licensee's attorney-in-fact, which appointment shall be irrevocable and coupled with an interest. Licensor shall provide Licensee with copies of any documents so executed by Licensor as Licensee's attorney-in-fact; provided, however, Licensor's inadvertent failure to do so shall not be deemed a breach hereof or of the Franchise Agreement.

1.02 Certain Restrictions.

(a) Restricted Use. No right is granted for the use of Licensed Materials by any affiliate or subsidiary of Licensee, and no right is granted for the use of the Licensed Materials by any person or entity other than Licensee and employees of Licensee in the performance of their duties for Licensee in operating Licensee's Franchise. No right is granted for Licensee or any employee of Licensee to use the Licensed Materials at or from their personal residences or at any location other than the Permitted Installation Location.

(b) No Modifications. Licensee agrees not to (i) decompile, reverse engineer, disassemble or otherwise reduce the Software to a human-perceivable form or attempt to discover the source code thereof; (ii) modify, network (other than an intranet available only to Licensee's employees while physically located at the Permitted Installation Location), rent, lend, loan, transfer, sublicense, sell, assign or distribute any of the Licensed Materials or make derivative works based on the Licensed Materials in whole or in part, or (iii) electronically (or otherwise) transmit the Licensed Materials over a network (except an intranet available only to Licensee's employees while physically located at the Permitted Installation Location and except to transmit same to Licensor) (collectively, "Prohibited Actions"). Upon the occurrence of any Prohibited Actions, the License will automatically terminate, all rights in or to the Licensed Materials will automatically revert and transfer to Licensor and Licensee will promptly deliver all Licensed Materials to Licensor.

(c) Installation Restrictions. Unless otherwise consented to by Licensor in writing, the Licensed Software may only be installed by Licensor.

(d) Updates. Licensor may, but is not obligated to, update, revise or modify the Software.

1.03 Description of Licensed Materials; Agreement to Use Licensed Materials.

(a) Description. The Licensed Materials contain, among other things, software programs (x) to enable Licensee to input and process data and information with respect to the operational aspects of Licensee's Franchise listed below (including, without limitation, all customer information and databases), and (y) to facilitate, manage, control, record, document, store and track such data and information, including, without limitation:

(i) Contact management software for input, storage, recordation and management of Licensee's Franchise's customer lists, including names, addresses, telephone numbers and other customer contact and financial information, and Licensee's Franchise's supplier lists, including names, addresses, telephone numbers and other contact and financial information.

(ii) Software to input, record, store, manage, track and source information concerning Licensee's Franchise's advertising.

(iii) Software to input, manage and track Licensee's Franchise's accounts receivable.

(iv) Software to input, record, track, manage and schedule Licensee's Franchise's open jobs and installer, designer and customer service appointment times, dates and related information.

(b) Definition of the Term "Information". Licensee acknowledges and agrees that the term "Information", as used herein, means and includes all information which Licensee (and Licensee's employees) collect during the Term of this Agreement relating to the operation of Licensee's Franchise that is possible to be input into the Software or Third Party Software, including, without limitation, customer lists, customer names, addresses, contact and financial information, supplier lists, supplier names, addresses, contact and financial information, accounts

receivable, accounts payable, installer and designer scheduling information, other operational information concerning Licensee's Franchise, and all graphics, data and text of every kind and nature which Licensee (or Licensee's employees) input, store or record in the Software during the term of this Agreement.

(c) Agreement to Use Licensed Materials. Licensee agrees to use the Licensed Materials and only the Licensed Materials to input, store, record, track, manage and control the Information and not to use any media or technology of any nature other than the Licensed Materials to input, store, record, track, manage or control of any of the Information.

ARTICLE II LICENSOR COPY OF THE INFORMATION

Licensee agrees within ten days after the end of each calendar quarter of each calendar year during which this Agreement is in effect to provide Licensor with an electronic copy of the Information either by uploading such Information to the Intranet or by providing Licensor with a copy of such Information on CD-Rom (or such other medium as Licensor may require) of the Licensed Materials together with all Information input, stored, recorded, tracked, managed or controlled therein by Franchisor (the "Licensor Copy"), and if Licensee fails to provide such Licensor Copy to Licensor within any such ten-day period, then Licensor shall have the right to enter the Permitted Installation Location during regular business hours and shall be permitted to use Licensee's computers and server to make the Licensor Copy. Licensee acknowledges that Licensor, in its sole discretion, may during the term of this Agreement provide an Intranet Site to allow Licensor the ability at any time via the Internet to access, view and copy Licensee's Licensed Materials and Information and may also provide an interface for Licensee to download and install Software. Licensee agrees that Licensor may at any time access, view and copy Licensee's Licensed Materials via the Internet Site and Licensee shall if requested use reasonably commercial efforts to assist Licensor in accessing Licensee's Information and Licensed Materials for such purpose. Licensee agrees if requested by Licensor to replicate and/or copy the Information for Licensor each business day via the Intranet, and Licensee agrees, promptly upon termination of this Agreement to provide Licensor with a copy of the Information, and if Licensee fails to do so, Licensor shall have the right to enter the Permitted Installation Location during regular business hours and shall be permitted to use Licensee's computers and server to make such Licensor Copy.

ARTICLE III BACK-UP COPY

Licensee shall make one back-up copy of the Software solely for back-up and archival purposes (a "Back-Up Copy"). The Back-Up Copy shall at all times be located at the Permanent Installation Location. Licensee shall not be entitled to make any further copies of the Licensed Materials without Licensor's prior written consent. Licensee agrees to reproduce on such Back-Up Copy Licensor's copyright notice and other proprietary legends that are on the original copy of the Licensed Materials. Except as specifically permitted by Sections 1.01(a), 1.02(b) and 7.02, Licensee is not permitted to copy or distribute the Licensed Materials. Licensee agrees that it will not use or copy the Licensed Materials except as specifically authorized in this Agreement. IT IS LICENSEE'S RESPONSIBILITY TO MAINTAIN A BACKUP COPY OF ALL DATA AND PROGRAMS USED IN CONJUNCTION WITH THE LICENSED MATERIALS INCLUDING WITHOUT LIMITATION THE INFORMATION TO PREVENT CATASTROPHIC LOSS.

ARTICLE IV MINIMUM TECHNOLOGY SPECIFICATIONS

Licensee hereby acknowledges that (i) the minimum specifications for hardware, software, operating system or other technology that Licensee will be required to use hereunder in order to utilize the Software is set forth in the Licensed Documentation, the Agreement and the Franchise Disclosure Document of Licensor (the "Minimum Technology Specifications"), and (ii) the Minimum Technology Specifications may from time to time be modified, updated or revised by Licensor in its sole discretion to maintain compatibility with revised, upgraded or modified versions of the Licensed Materials, to maintain compatibility with new or current technologies on the market or to repair "bugs" or "errors" in the Licensed Materials, (iii) Licensee will at all times during the term of this Agreement and at Licensee's sole cost and expense cause the Software to be installed and operated on hardware, software, operating systems and other technology which meet the Minimum Technology Specifications, and (iv) if the Licensed Documentation is modified, updated or revised and the hardware, software, operating system or other technology Licensee is using to operate the Software no longer meets the Minimum Technology Specifications, then Licensee shall at its sole cost and expense modify, update and revise

the hardware, software, operating system or other technology Licensee is utilizing to operate the Software in order to satisfy the Minimum Technology Specifications.

ARTICLE V OWNERSHIP

No ownership interest in the Licensed Materials or any of Licensor's proprietary and intellectual property rights is transferred to Licensee hereunder. Licensee acknowledges that all right, title and interest in and to the Licensed Materials, including all proprietary and intellectual property rights (including trademarks, service marks and copyrights) remain the exclusive property of Licensor. Licensee agrees not to remove any product identification, copyright or other proprietary notice from the Licensed Materials. Licensee agrees to not challenge Licensor's ownership or right to license Licensed Materials or any of Licensor's proprietary and intellectual property rights or to do anything inconsistent with Licensor's ownership of Licensed Materials.

ARTICLE VI EXPORT RESTRICTIONS

Licensee acknowledges that the laws and regulations of the United States restrict the export and re-export of certain commodities and technical data of United States origin, including the Licensed Materials, in any medium. Licensee agrees that Licensee will not knowingly, without prior authorization of Licensor, export or re-export the Licensed Materials in any medium except as authorized and permitted by the laws and regulations of the United States and of the laws and regulations of the jurisdiction in which you obtained the Software.

ARTICLE VII PROTECTION

7.01 Safeguarding Materials. Licensee agrees to use Licensee's best efforts and take all reasonable steps to safeguard the Licensed Materials to ensure that no unauthorized person shall have access thereto and that no unauthorized copy, publication, disclosure or distribution, in whole or in part, in any form shall be made. Licensee acknowledges that the Licensed Materials contain valuable, confidential information and trade secrets and that unauthorized use and/or copying are harmful to Licensor.

7.02 Non-Disclosure. Licensee agrees to hold all of the Licensed Materials in confidence for Licensor. Licensee further agrees not to make any disclosure of Licensed Materials (including methods or concepts utilized therein) to anyone except to employees of Licensee to whom such disclosure is permitted hereunder. Licensee shall appropriately notify all employees to whom any such disclosure is made that such disclosure is made in confidence and shall be kept in confidence by them.

7.03 Waiver of Injunctive Relief. Licensee hereby irrevocably waives its right to seek injunctive or other equitable relief and agrees to limit any claims brought in connection with this Agreement to claims for money damages, if any. Licensee acknowledges Licensee's breach or anticipatory breach of any of the terms of this Agreement would cause irreparable injury and harm to Licensor and that money damages alone would not make Licensor whole and accordingly Licensee agrees that Licensor may seek injunctive or other equitable relief (without the obligation to post bond or other security) for any breach or anticipatory breach by Licensee of this Agreement in addition to all other available remedies at law or in equity.

ARTICLE VIII TERM AND TERMINATION

8.01 Term and Territory. The term of this Agreement commences on the Effective Date and will continue in full force and effect thereafter for so long as the Franchise Agreement is in full force and effect unless earlier terminated as set forth in Section 8.02 herein ("Term"). The "Territory" of the License is the territory set forth in the Franchise Agreement; provided, however, that use via the Intranet, for the purposes permitted by this Agreement will not exceed the territory restrictions of this Agreement.

8.02 Termination.

(a) Licensee's and Licensor's Right to Terminate This Agreement. This Agreement shall terminate automatically if (A) Licensee fails to timely pay Licensor the fees described in Article IX below, (B) the Franchise Agreement expires or terminates, or (C) if Licensee breaches the provisions of Section 1.02(b). Licensor shall have the right to terminate this Agreement (i) for breach of any provision hereof by Licensee, (ii) if Licensee files a voluntary petition under any chapter of the United States Bankruptcy Code or any similar state or foreign law or is adjudicated as bankrupt or insolvent or files any petition seeking liquidation, dissolution or similar relief under the United States Bankruptcy Code or any other insolvency or debtor relief law, (iii) if an involuntary petition is filed against Licensee under the United States Bankruptcy Code which is not dismissed within 60 days, (iv) if a receiver, trustee, conservator or liquidator of all or a substantial portion of Licensee's properties or assets is appointed, (v) if a court or arbitrator or other governmental authority imposes a final, non-appealable judgment or order on Licensee which Licensee does not satisfy in full within 60 days thereafter or (vi) is not able to pay its debts or other liabilities as they mature in the normal course of business. Termination of this Agreement for the reasons specified in the immediately preceding sentence shall be effective immediately upon receipt of notice thereof by Licensor to Licensee. Licensee may terminate this Agreement only upon the expiration or termination by Licensee of the Franchise Agreement in accordance with the terms thereof.

(b) Effect of Termination. Upon the termination of this Agreement by Licensor or by Licensee for any reason, then (i) all of Licensee's rights hereunder to access, view, print and use the Licensed Materials and the Information shall immediately terminate, (ii) Licensee shall immediately return all copies of the Licensed Materials and Information to Licensor, (iii) Licensee shall immediately return all Software to Licensor, (iv) Licensee shall immediately deliver to Licensor a copy in electronic form of all of the Information, (v) all right, title and interest in and to all of the Information shall belong solely to Licensor, (vi) all of Licensee's right, title and interest in and to the Information shall immediately terminate, and Licensee shall have no right to access, print, view, use or otherwise exploit any of the Information for any purpose whatsoever, and (vii) Licensee shall immediately destroy all other copies of the Licensed Materials and the Information not delivered to Licensor. Licensee acknowledges and agrees that upon termination or expiration of this Agreement by Licensor or Licensee for any reason, Licensor shall not have the right to access, print, view or use any of the customer information obtained or developed during the course of the term of the Franchise Agreement relating to the operation of the franchised business, including, without limitation, customer names, addresses, telephone numbers and other contact information, financial information or data or other data of any type or nature which is included in the Licensed Materials and Information. Licensee acknowledges and agrees that the terms of this Article 8 are a material inducement to Licensor entering into this Agreement with Licensee.

ARTICLE IX FEES

9.01 Annual Fee. An annual fee of \$100 per calendar year during the term of this Agreement shall be payable by Licensee to Licensor for the grant of rights hereunder. Licensee shall pay Licensor the initial \$100 fee upon execution of this Agreement for the calendar year in which this Agreement is executed. Subsequent renewal fees of \$100 for each calendar year must be received by Licensor no later than January 1 of the applicable calendar year during which this Agreement is in effect.

9.02 Monthly Fee. In consideration for the services provided by Licensor hereunder, Licensee shall pay Licensor a monthly Software maintenance fee in the amount of \$100.00. The monthly fee shall be payable on or before the first of each month during which this Agreement is in effect.

9.03 Failure to Timely Pay Fees. If Licensor does not receive the required annual fee on or before January 1 of the applicable calendar year, this Agreement shall automatically terminate without Licensor being required to provide any notice thereof to Licensee. If Licensor does not receive the required monthly fee within 30 days of when such monthly payment is due, then this Agreement shall automatically terminate without Licensor being required to provide any notice thereof to Licensee. Payments to Licensor shall be made in United States dollars to the address specified in the introductory paragraph of this Agreement.

ARTICLE X SURVIVAL

The obligations of Licensee under **Sections 1.01(c), 1.04, 2.01, 4.02, 5, 8.02, 11.02, 10, 11, 13, 15 and 16** shall survive and continue after any termination of rights under this Agreement.

ARTICLE XI WARRANTIES

11.01 Limited Express Warranty. Licensor warrants that, if Licensee complies with the Minimum Technology Specifications, and if Licensee is otherwise in compliance with the terms of this Agreement, the Software will be either provided by Licensor or made available via the Licensor's Intranet Site for Licensee to download and install in accordance with the terms of the Licensed Documentation and this Agreement, and, under normal use consistent with its intended purpose, will perform in a manner substantially consistent with Licensor's operating standards for the Software, as set forth in the Licensed Documentation and the Intranet Site. Licensor does not warrant that the Software or Third Party Software will be error free or free of bugs. In the event the Software or Third Party Software does not operate substantially consistent with Licensor's standards for the Software, Licensor's sole obligation is to make good faith commercially reasonable efforts to repair or replace the Software. In the event the problems are found to be the fault of Licensee, Licensee will reimburse Licensor's costs and expenses relating to such repair or replacement. The warranty provisions herein shall be void in the event of any breach, misuse or failure to follow the Minimum Technology Specifications and other terms set forth in the Licensed Documentation and Intranet Site.

11.02 Disclaimer of Warranties. ALL EXPRESS WARRANTIES OTHER THAN THE LIMITED EXPRESS WARRANTY SET FORTH IN SECTION 11.01 ABOVE ARE EXPRESSLY DISCLAIMED. ALL IMPLIED WARRANTIES ARE EXPRESSLY DISCLAIMED, AS MORE FULLY SET FORTH BELOW. LICENSEE EXPRESSLY ACKNOWLEDGES AND AGREES THAT USE OF THE LICENSED MATERIALS IS AT LICENSEE'S SOLE RISK. THE LICENSED MATERIALS ARE PROVIDED "AS IS" AND WITHOUT WARRANTY OF ANY KIND OR NATURE EXCEPT FOR THE LIMITED EXPRESS WARRANTY SET FORTH IN ARTICLE X ABOVE. LICENSOR EXPRESSLY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS AND IMPLIED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF NON-INFRINGEMENT AND OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. LICENSOR DOES NOT WARRANT THAT THE FUNCTIONS CONTAINED IN THE LICENSED MATERIALS WILL MEET LICENSEE'S BUSINESS OR OPERATIONAL REQUIREMENTS THAT THE OPERATION OF THE LICENSED MATERIALS WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT DEFECTS IN THE LICENSED MATERIALS WILL BE CORRECTED. LICENSEE ASSUMES THE ENTIRE RISK AS TO THE SELECTION AND USE OF THE LICENSED MATERIALS, INCLUDING THE RESULTS AND PERFORMANCE OF THE LICENSED MATERIALS. FURTHER, LICENSOR DOES NOT WARRANT OR MAKE ANY REPRESENTATIONS REGARDING THE USE OR THE RESULTS OF THE USE OF THE LICENSED MATERIALS IN TERMS OF THEIR CORRECTNESS, ACCURACY, RELIABILITY, CURRENCY OR OTHERWISE. NO ORAL OR WRITTEN INFORMATION OR ADVICE GIVEN BY LICENSOR OR ITS EMPLOYEES OR AUTHORIZED REPRESENTATIVES SHALL CREATE A WARRANTY OR OTHER OBLIGATION OR IN ANY INCREASE THE SCOPE OF THE WARRANTY HEREUNDER. TO THE EXTENT ANY JURISDICTION DOES NOT PERMIT THE EXCLUSIONS, DISCLAIMERS OR LIMITATIONS SET FORTH ABOVE, THEY WILL BE DEEMED MODIFIED TO THE MINIMUM EXTENT SPECIFICALLY REQUIRED BY APPLICABLE LAW. LICENSEE MAKES NO WARRANTIES, EXPRESS OR IMPLIED, THAT LICENSED MATERIALS WILL IN ANY WAY IMPROVE OR FAVORABLY IMPACT LICENSEE'S BUSINESS REVENUE, PROFITS, OR OPERATION.

ARTICLE XII INSTALLATION AND TECHNICAL SUPPORT

12.01 Installation. Licensor shall install the Software at the Permitted Installation Location, or Licensor may, in its sole discretion, provide the Software to Licensee for installation by Licensee at the Permitted Installation Location by providing Licensee with a CD-ROM containing the Software or by providing Licensee with a password and login name to permit Licensee access to the Intranet Site to download and install the Software. Licensor shall not be required to install or provide technical support for any Software if Licensee's hardware, software, operating system or other technology (i) do not meet Licensor's Minimum Technology Requirements or (ii) conflict with or cause failures of the Software or Third Party Software. Licensor will notify Licensee of updates, revisions and modifications to the Software or Third Party Software, if any, and the Minimum Technology Requirements from time to time on Licensor's Intranet Site, by telephone or by sending written

notice thereof to Licensee by United States Postal Service or by facsimile. Installation services do not include installation of an Intranet, Extranet, any network connectivity or the procurement or configuration of Internet access for Licensee's server or any computer workstation at the Permitted Installation Location. Licensee agrees, at Licensee's sole cost and expense, to acquire, install and configure the hardware, software, operating system and other technology meeting the Minimum Technology Requirements to enable Licensee to utilize the Software in accordance with its intended purpose.

12.02 Installation.

(a) So long as Licensee is not in breach of its obligations hereunder, Licensor will use commercially reasonable efforts during the Term of this Agreement to provide to Licensee, at no additional charge, technical support of the Software, including customer service telephone support during regular business hours (Pacific Standard Time) to explain the use and functionality of the Software and to provide assistance with system diagnosis (to determine if failures are attributable to the Software or to hardware, software, operational systems, firewalls or other technology acquired by Licensee), or by e-mail, facsimile, by making technical support information available on the Intranet Site or in other Licensed Documentation, as determined by Licensor in its sole discretion. Licensor shall not be responsible for failures due to hardware, software, operational systems, firewalls or other technology installed by Licensee on the servers or computer stations at Licensee's Permitted Installation Location that are incompatible with the Software.

(b) Licensee acknowledges and agrees that any and all requests for technical assistance and support with respect to installation, configuration, errors, failures, operation or other aspects of any Third Party Software must be directed by Licensee to such applicable vendor and not Licensor. Licensor shall not be responsible for any technical or operational failures, errors or other problems experienced by Licensee with the Third Party Software, and Licensee agrees to look solely to such Third Party Software provider for technical and operational assistance and support with the foregoing.

ARTICLE XIII LIMITATION OF LIABILITY

13.01 Attorneys Fees. Licensee and Licensor agree that in the event any action is brought by Licensor for breach by Licensee of its obligations hereunder, then the prevailing party in any litigation or action brought by Licensor relating thereto shall be entitled to recover attorneys' fees and costs incurred in connection therewith from the other party.

13.02 No Liability of Licensor. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, IN NO EVENT WILL LICENSOR, OR ITS SUBSIDIARIES OR AFFILIATES, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, REPRESENTATIVES OR AGENTS (COLLECTIVELY "LICENSOR PARTIES"), BE LIABLE TO YOU OR ANY THIRD PARTY FOR ANY SPECIAL, INDIRECT, PUNITIVE, EXEMPLARY, INCIDENTAL, OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS, LOST REVENUES OR SAVINGS, LOST BUSINESS OPPORTUNITY, BUSINESS INTERRUPTION, LOST DATA AND THE LIKE), WHETHER ARISING IN CONTRACT, BREACH OF WARRANTY, TORT (INCLUDING, WITHOUT LIMITATION, GROSS NEGLIGENCE, NEGLIGENCE OR STRICT PRODUCT LIABILITY) OR OTHERWISE, EVEN IF LICENSOR PARTIES HAVE BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY PROVIDED HEREIN AND NOTWITHSTANDING THAT ANY LIABILITY ARISES OUT OF THE USE, MISUSE OR INABILITY TO USE THE LICENSED MATERIALS, EVEN IF LICENSOR OR ITS AUTHORIZED REPRESENTATIVE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN ADDITION, LICENSOR PARTIES DISCLAIM ALL LIABILITY AND RESPONSIBILITY FOR VIOLATIONS OF LAW, PROPERTY DAMAGE OR PERSONAL INJURY THAT MAY RESULT FROM THE USE OF THE LICENSED MATERIALS BY LICENSEE, AND LICENSEE AGREES TO ASSUME SUCH LIABILITY AND RESPONSIBILITY THEREFOR AND SHALL INDEMNIFY THE LICENSOR PARTIES AND HOLD THEM HARMLESS FOR ANY LIABILITY, COSTS OR EXPENSES WHATSOEVER IN ANY WAY RELATED THERETO. IN NO EVENT SHALL LICENSOR'S TOTAL LIABILITY TO LICENSEE FOR ALL DAMAGES, LOSSES, AND CAUSES OF ACTION (WHETHER IN CONTRACT, TORT (INCLUDING GROSS NEGLIGENCE, NEGLIGENCE AND STRICT LIABILITY), BREACH OF WARRANTY OR OTHERWISE EXCEED THE AMOUNT PAID BY LICENSEE TO LICENSOR FOR THE SOFTWARE.

13.03 Payment of Taxes. Licensee shall pay any tax (and any related interest and penalties), however designated, imposed as a result of the existence or operation of this Agreement, including any tax which

Licensee is required to withhold or deduct from payments to Licensor, except any such tax constituting an income tax imposed upon Licensor or by any governmental entity within the United States.

**ARTICLE XIV
ASSIGNMENT**

Licensor and Licensee have entered into this Agreement in contemplation of personal performance by Licensee and intend that the rights granted to Licensee hereunder not extend to other persons or entities without Licensor's express written consent. Licensee shall not have the right to assign, transfer, sell, sublicense or distribute any of its rights or obligations under this Agreement without Licensor's prior express written consent, and any such attempted assignment, transfer, sale, sublicense or distribution thereof without Licensor's prior written consent shall be void. Licensor shall have the right to assign all or any part of its obligations hereunder to any person or entity without Licensee's consent.

**ARTICLE XV
INDEMNIFICATION**

Licensee agrees to indemnify, defend (with counsel of Licensor's choice and under Licensor's control) and hold Licensor harmless from and against all liabilities, losses, damages, costs and expenses, including, without limitation, attorneys' fees and expenses, which Licensor may incur or otherwise suffer as a result of Licensee's breach of any of its obligations, warranties, covenants or agreements under this Agreement.

**ARTICLE XVI
NOTICES**

Any statement, notice, request or other communication hereunder shall be given as follows: (i) delivery shall be deemed to have occurred two business days after deposited with the United States Postal Service, with postage paid, addressed to Licensee or Licensor at the address listed below, return receipt requested, (ii) delivery shall be deemed to have occurred one business day after deposit with Federal Express, United Parcel Service or another reputable national overnight courier service, addressed to Licensee or Licensor at the address listed below, or (iii) delivery shall be deemed to have occurred when given if delivered in person.

If to Licensee:

If to Licensor:

CBD FRANCHISING, INC.
ATTN: JERRY EGNER, PRESIDENT
13272 GARDEN GROVE BLVD.
GARDEN GROVE, CA 92843-2205
Telephone: (714) 890-5860

With copies to:

DAVID J. KAUFMANN, ESQ.
KAUFMANN GILDIN & ROBBINS LLP
767 THIRD AVENUE, 30TH FLOOR
NEW YORK, NY 10017

and

CHRISTOPHER S. REEDER, ESQ.
CSREEDER, PC
11766 WILSHIRE BOULEVARD, SUITE 1470
LOS ANGELES, CALIFORNIA 90025

**ARTICLE XVII
MISCELLANEOUS**

17.01 Applicable Law and Jurisdiction. This Agreement shall be governed by the internal laws of the State of California without regard to principles of conflict of laws. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the courts of the State of California in the County of Los Angeles for any action, suit or proceeding arising out of or relating to this Agreement and hereby waives any claim for inconvenient forum with respect thereto.

17.02 Amendments; No Waiver. No waivers, modifications, supplements or amendments to this Agreement shall be valid unless made by written instrument signed by Licensee and Licensor. No failure by any party hereto to enforce its rights pursuant to any provision of this Agreement shall constitute a waiver or estoppel of such party's right to enforce its rights hereunder or a continuing waiver by such party of compliance with any provision hereof.

17.03 Integration. This Agreement sets forth the entire agreement and understanding between the Parties as to the subject matter hereof and supersedes all prior written and oral agreements regarding the subject matter hereof. Neither of the Parties shall be bound by any warranties, understandings or representations with respect to such subject matter other than as expressly provided herein.

17.04 Counterparts and Copies. This Agreement may be executed in counterparts and by facsimile, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument.

17.05 Invalidity and Severability. If any provision of this Agreement is determined to be partially or wholly invalid, illegal or unenforceable, then such provision shall be deemed to be modified or restricted to the minimum extent necessary to make such provision valid, binding and enforceable, or, if such provision cannot be modified or restricted in a manner so as to make such provision valid, binding and enforceable, then such provision shall be deemed to be excised from this Agreement, and the validity, binding effect and enforceability of the remaining provisions of this Agreement shall not be affected or impaired in any manner.

[THE REST OF THIS PAGE IS LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF, the undersigned hereby executes this Agreement effective as of the date of the last signatory below.

Dated: _____, 20__.

LICENSEE:

Print name of Licensee Entity

Print Name and Title of Officer

By: _____
Signature of Officer

PRINCIPALS

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

LICENSOR:

CBD FRANCHISING, INC.

By: _____
Jerry Egner, President

STATE ADDENDA TO SOFTWARE LICENSE AGREEMENT

ILLINOIS ADDENDUM TO SOFTWARE LICENSE AGREEMENT

The provisions of the Software License Agreement concerning governing law, jurisdiction and choice of law will not constitute a waiver of any right conferred upon Franchisee by the Illinois Franchise Disclosure Act. Consequently, Section 17.01 ("Applicable Law and Jurisdiction") will be deleted for all Illinois franchisees.

Dated: _____, 20____.

LICENSEE:

Print name of Licensee Entity

Print Name and Title of Officer

By: _____
Signature of Officer

PRINCIPALS

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

LICENSOR:

CBD FRANCHISING, INC.

By: _____
Jerry Egner, President

INDIANA ADDENDUM TO SOFTWARE LICENSE AGREEMENT

Notwithstanding anything to the contrary set forth in the Software License Agreement, the following provisions will supersede and apply:

1. Section 17.01 of the Software License Agreement (“Applicable Law and Jurisdiction”) will not relieve the Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Indiana, and the laws of the State of Indiana supersede such provision or California law if such provision is in conflict with Indiana law.

Dated: _____, 20____.

LICENSEE:

Print name of Licensee Entity

Print Name and Title of Officer

By: _____
Signature of Officer

PRINCIPALS

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

LICENSOR:

CBD FRANCHISING, INC.

By: _____
Jerry Egner, President

MARYLAND ADDENDUM TO SOFTWARE LICENSE AGREEMENT

The following provisions will supersede anything to the contrary in the Software License Agreement and will apply to all franchises offered and sold under the laws of the State of Maryland:

Section 17.01 of the Software License Agreement (“Applicable Law and Jurisdiction”) requires venue to be limited to California. This section is amended to permit a franchisee to bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Dated: _____, 20____.

LICENSEE:

Print name of Licensee Entity

Print Name and Title of Officer

By: _____
Signature of Officer

PRINCIPALS

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

Print Name of Principal

Signature of Principal

Dated: _____, 20____.

LICENSOR:

CBD FRANCHISING, INC.

By: _____
Jerry Egner, President

WASHINGTON SOFTWARE LICENSE AGREEMENT ADDENDUM

The following provisions will supersede anything to the contrary in the Software License Agreement and will apply to all franchises offered and sold under the laws of the State of Washington:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.
2. RCW 19.100.180 may supersede the Software License Agreement in your relationship with the franchisor including the areas of termination and renewal of the Software License Agreement. There may also be court decisions which may supersede the Software License Agreement in your relationship with the franchisor including the areas of termination and renewal of the Software License Agreement.
3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the Software License Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
4. A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.
7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

Signature page follows.

Dated: _____, 20__.

LICENSEE:

Print name of Licensee Entity

Print Name and Title of Officer

By: _____
Signature of Officer

PRINCIPALS

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

Print Name of Principal

Signature of Principal

Dated: _____, 20__.

LICENSOR:

CBD FRANCHISING, INC.

By: _____

EXHIBIT 4-A - CONFIDENTIALITY/NON-COMPETITION AGREEMENT

NAME: _____

FRANCHISEE: _____

HOME ADDRESS: _____

HOME TELEPHONE: _____

CLASSIFICATION: _____

_____ (“Franchisee”) is a franchisee of CBD Franchising, Inc. (“Franchisor”) pursuant to a Franchise Agreement entered into by Franchisee and Franchisor dated _____ (the “Franchise Agreement”). I, _____, agree that, unless otherwise specified, all terms in this Confidentiality/Non-Competition Agreement (“Agreement”) have those meanings ascribed to them in the Franchise Agreement.

I agree that during the term of my employment by, ownership participation in, association with or service to Franchisee, or at any time thereafter, I will not communicate, divulge or use for the benefit of any other person, persons, partnership, proprietorship, association, corporation or entity any confidential information, knowledge or know-how concerning the systems of operation, services, products, customers or practices of Franchisee and/or Franchisor which may be communicated to me (“Confidential Information”), and I will not divert any business to competitors of Franchisee and/or Franchisor.

Any and all information, knowledge, know-how, techniques and information which the entities mentioned above or their officers designate as confidential will be Confidential Information for the purposes of this Agreement, except information which I can demonstrate came to my attention before disclosure or which had become or becomes a part of the public domain through publication or communication by others (unless the publication or communication is in violation of a similar confidentiality agreement), but in no event through any act of mine.

“Confidential Information” is defined as information, knowledge, trade secrets or know-how concerning your or Franchisee’s systems of operation, programs, services, products, customers, practices, materials, books, records, manuals, computer files, databases or software. Confidential Information includes (without limitation) all information, knowledge, know-how, techniques and information that Franchisor, its Affiliates, or their officers, contractors, employees and/or designees, designate as confidential.

“Confidential Information” also includes, without limitation, all of the following even if developed by me or on my behalf in conjunction with or related to the franchised Business: products, merchandise, goods, equipment, programs, and/or services used or sold by the franchised Business; the means, manner and style of offering and conducting retail transactions in, at and from the Closets By Design Location; any business products and services developed for the franchised Business (including, without limitation, any computer software programs or templates); all intellectual property created for, adopted by or purchased for the franchised Business; and, all sales, marketing, advertising and promotional programs and campaigns developed by me or on my behalf. I agree that any such developments are and will remain the sole property of Franchisor, and I further agree to turn over all such Confidential Information to Franchisor upon the expiration or other termination for any reason of my employment, association, service or ownership participation.

I understand that, as of the date of execution of this Agreement, Confidential Information also includes the following (without limitation): the Closets By Design System and all services, products, equipment, technologies, policies, standards, requirements, criteria and procedures that are part of the Closets By Design System now or at any time during the term of my employment/service/association/ownership participation; Franchisor’s Manual; Supplements and amendments to the Manual; Franchisor’s Templates; all Franchisor’s and its Affiliates’ construction patterns for custom closets and home or office organization structural plans; all procedures, systems, techniques and activities employed by Franchisor or by Franchisee in the course of offering and selling custom closet services, other customized organizer services and related products and services from or at the franchised Business and at customer work sites; product designs; compilations of products; product lists; customer lists price book lists; all pricing paradigms established by Franchisor or Franchisee; all of Franchisor’s and/or Franchisee’s sources (or prospective sources) of supply, and all information pertaining to same (including, without limitation, wholesale pricing structures); the computer and hardware and software utilized by Franchisor and/or Franchisee; all information pertaining to Franchisor’s and/or Franchisee’s advertising, marketing, promotion and merchandising campaigns, philosophies, materials,

specifications and procedures; computer network Web site(s), and all information posted on or received at the Web site(s); all Franchisor's instructional materials; quality assurance programs; supervision systems; recommended services; record keeping, bookkeeping and accounting systems and materials; revenue reports; activity schedules; job descriptions; records pertaining to customers; business forms; product and service order forms; general operations materials; revenue reports; specifications, systems, standards, techniques, philosophies and materials, guidelines, policies and procedures concerning the Closets By Design System; additions to, deletions from, and modifications and variations of the components of the Closets By Design System or the systems and methods of operations which Franchisor employs now or at any time during the term of my employment/service/association/ownership participation, including all related standards and specifications and the means and manner of offering and selling them; and, all other components, specifications, standards, requirements and duties which Franchisor or its Affiliates impose.

I will at no time copy, duplicate, record or otherwise reproduce any of the Confidential Information or material containing it, in whole or in part, store them in a computer retrieval or data base, nor otherwise make them available to any unauthorized person. Upon the expiration or other termination for any reason of my employment, association, service or ownership participation, I agree to return to Franchisor or Franchisee, as the case may be, all Confidential Information or material containing it (in whole or in part) in my possession utilized during my employment, association, service or ownership participation.

I further agree that during the term of my employment/service/association/ownership participation, and for a period of two years immediately following its expiration or termination for any reason, I agree not to solicit for employment or hire Franchisor's or its franchisees' personnel or the personnel of any of Franchisor's Affiliates, without first obtaining written permission from the employer(s) of the personnel in question. If I violate this covenant by hiring any such personnel of Franchisor or its Affiliates, then in addition to any other remedy available to Franchisor, I agree to immediately pay to Franchisor (or to its Affiliate, if applicable) an amount equal to 200% of the compensation paid by Franchisor or its Affiliate to the employee during the preceding 12 months (or the total time if employed less than 12 months) that he or she was employed by Franchisor or its Affiliate, such sum to be paid not as a penalty, but rather as liquidated damages for Franchisor's (or its Affiliate's) loss of an experienced employee, and Franchisor's (or its Affiliate's) need to locate, hire and train a replacement employee.

I also agree that during the term of my employment/service/association/ownership participation, and for a period of two years immediately following its expiration or termination for any reason, I will not solicit for employment or hire any *former* personnel of Franchisor's or of its Affiliates if such person has been in Franchisor's or its Affiliate's employ within the past 12 months, without first obtaining written permission from Franchisor and/or its Affiliate (the former employer(s) of the personnel in question). If I violate this covenant by hiring any such former personnel of Franchisor's or its Affiliates, then in addition to any other remedy available to Franchisor, I agree to immediately pay to Franchisor (or to Franchisor's Affiliate, if applicable) an amount equal to 200% of the compensation paid by Franchisor or Franchisor's Affiliate to the employee during the preceding 12 months (or the total time if employed less than 12 months) that he or she was employed by Franchisor or Franchisor's Affiliate, such sum to be paid not as a penalty, but rather as liquidated damages for the likely disclosure of Franchisor's (or Franchisor's Affiliate's) confidential information by the person hired.

I further agree that during the term of my employment/service/association/ownership participation, and under the circumstances set forth in the following paragraph, for a period of two years immediately following its expiration or termination for any reason, I will not, for myself or on behalf of or in conjunction with any other person or entity whatsoever, directly or indirectly, engage or participate in any other business which offers or sells custom closet services or products or other customized home organizer services or products; which engages in any of the activities which the Franchise Agreement contemplates that Franchisee will engage in; which competes with Franchisor, any of its Affiliates or Franchisee; or, which offers or sells any other service, product or component which during the Term of this Agreement and/or any subsequent Renewal Term of the Franchise Agreement is part of the Closets By Design System, or any confusingly similar service or product (a "Competitive Business"). I agree that I am prohibited from engaging in any Competitive Business as a proprietor, partner, investor, shareholder, director, officer, employee, principal, agent, advisor, or consultant.

For a period of two years immediately following the expiration or termination of my employment/service/association/ownership participation, I am prohibited from engaging in any Competitive Business, if the other business is located within Franchisee's Territory, within 75 miles of the perimeter of Franchisee's Territory, or within 75 miles of the perimeter of (or within) any Closets By Design Business Territory (whether company-owned, franchised or otherwise established and operated).

I understand, acknowledge and agree that the obligations and restrictions set forth herein will be tolled for any period during which I have not been in full compliance herewith.

It is the intention of these provisions to preclude not only direct competition but also all forms of indirect competition, such as consultation for Competitive Businesses, service as an independent contractor for Competitive Businesses, active or passive investment, acting as franchisor or franchisee or any assistance or transmission of information of any kind which would be of any material assistance to a competitor. Nothing herein will prevent me from owning for investment purposes up to an aggregate of 5% of the capital stock of any Competitive Business, so long as the Competitive Business is a publicly held corporation whose stock is listed and traded on a national or regional stock exchange, or through the National Association of Securities Dealers Automated Quotation System (NASDAQ), and so long neither I nor Franchisee control the company in question.

It is the intention of these provisions that any person or entity having any legal or beneficial interest in or traceable to, down or through me to be bound by the provisions of this covenant, including (without limitation) a spouse, brother, brother-in-law, sister, sister-in-law, parent, parent-in-law, child, son-in-law or daughter-in-law; any direct or indirect beneficiary; any partner (general or limited) or proprietor of mine; and, any other such related person or entity, regardless of how many levels or tiers there may be between any such described person or entity and me. I further agree that upon the expiration or termination of my term of employment/service/association, I will immediately refrain from any and all contacts with customers, for any purpose whatsoever.

I acknowledge that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor and Franchisee for which no adequate remedy at law will be available. Accordingly, I hereby consent to the entry of an injunction procured by Franchisor or Franchisee (or both) prohibiting any conduct by me in violation of the terms of those covenants not to compete and/or restrictions on the use of confidential information set forth in this Agreement. I expressly agree that it may conclusively be presumed in any legal action that any violation of the terms of these covenants not to compete was accomplished by and through my unlawful utilization of Franchisor's Confidential Information. Further, I expressly agree that any claims I may have against Franchisor will not constitute a defense to Franchisor's enforcement of the covenants not to compete set forth in this Agreement. I further agree to pay all costs and expenses (including reasonable attorneys' and experts' fees) incurred by Franchisor in connection with the enforcement of those covenants not to compete set forth in this Agreement.

If all or any portion of this covenant not to use confidential information and not to compete is held unreasonable, void, vague or illegal by any court or agency having valid jurisdiction in an unappealed final decision to which Franchisee and/or Franchisor is a party, the court or agency will be empowered to revise and/or construe the covenant to fall within permissible legal limits, and should not invalidate the entire covenant. I expressly agree to be bound by any lesser covenant subsumed within the terms of this Agreement as if the resulting covenant were separately stated in and made a part of this Agreement.

I agree that this Agreement and all relations and disputes between me on the one hand, and Franchisee or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, are to be exclusively construed in accordance with and/or governed by (as applicable) the law of the State of California without recourse to California (or any other) choice of law or conflicts of law principles. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the franchised Business is located outside of California and the provision would be enforceable under the laws of the state in which the franchised Business is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. **I specifically acknowledge and agree that Franchisor can assign its specific rights under this Agreement to Franchisor's successor in interest.**

The Lanham Act (15 U.S.C. §1051 et seq.) governs any issue involving the Proprietary Marks. To the extent applicable, the laws of the State of the Territory govern all issues involving (i) the non-competition covenants set forth in this Agreement and (ii) modification of this Agreement while it is in effect. Except as otherwise provided in this paragraph, this Agreement and the legal relations and any and all disputes between me on the one hand, and Franchisee or Franchisor on the other hand will be governed by and construed in accordance with the laws of the State of California without regard to its conflict of laws doctrine. Nothing in this Agreement is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California or any other state, which would not otherwise apply.

I further agree that any litigation arising out of or related to this Agreement; any breach of this Agreement; relations and any and all disputes between me on the one hand, and Franchisee or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, will be instituted exclusively in the Superior Court of the State of California, County of Los Angeles or the United States District Court for the Central District of California. I hereby waive and covenant never to assert or claim that this venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of *forum non conveniens*). I further waive and covenant never to assert or claim that such courts lack personal jurisdiction over me. In the event both such courts lack jurisdiction to enter any requested injunctive relief, an action or proceeding requesting such relief may be brought before any court having jurisdiction to grant such relief.

(Print Name)

(Signature)

(Date)

EXHIBIT 4-B - CONFIDENTIALITY AGREEMENT (NON-MANAGERIAL PERSONNEL)

NAME: _____

FRANCHISEE: _____

HOME ADDRESS: _____

HOME TELEPHONE: _____

CLASSIFICATION: _____

_____ (“Franchisee”) is a franchisee of CBD Franchising, Inc. (“Franchisor”) pursuant to a Franchise Agreement entered into by Franchisee and Franchisor dated _____ (the “Franchise Agreement”). I, _____, agree that, unless otherwise specified, all terms in this Confidentiality/Non-Competition Agreement (“Agreement”) have those meanings ascribed to them in the Franchise Agreement.

I agree that during the term of my employment by, ownership participation in, association with or service to Franchisee, or at any time thereafter, I will not communicate, divulge or use for the benefit of any other person, persons, partnership, proprietorship, association, corporation or entity any confidential information, knowledge or know-how concerning the systems of operation, services, products, customers or practices of Franchisee and/or Franchisor which may be communicated to me (“Confidential Information”), and I will not divert any business to competitors of Franchisee and/or Franchisor.

Any and all information, knowledge, know-how, techniques and information which the entities mentioned above or their officers designate as confidential will be Confidential Information for the purposes of this Agreement, except information which I can demonstrate came to my attention before disclosure or which had become or becomes a part of the public domain through publication or communication by others (unless the publication or communication is in violation of a similar confidentiality agreement), but in no event through any act of mine.

“Confidential Information” is defined as information, knowledge, trade secrets or know-how concerning your or Franchisee’s systems of operation, programs, services, products, customers, practices, materials, books, records, manuals, computer files, databases or software. Confidential Information includes (without limitation) all information, knowledge, know-how, techniques and information that Franchisor, its Affiliates, or their officers, contractors, employees and/or designees, designate as confidential.

“Confidential Information” also includes, without limitation, all of the following even if developed by me or on my behalf in conjunction with or related to the franchised Business: products, merchandise, goods, equipment, programs, and/or services used or sold by the franchised Business; the means, manner and style of offering and conducting retail transactions in, at and from the Closets By Design Location; any business products and services developed for the franchised Business (including, without limitation, any computer software programs or templates); all intellectual property created for, adopted by or purchased for the franchised Business; and, all sales, marketing, advertising and promotional programs and campaigns developed by me or on my behalf. I agree that any such developments are and will remain the sole property of Franchisor, and I further agree to turn over all such Confidential Information to Franchisor upon the expiration or other termination for any reason of my employment, association, service or ownership participation.

I understand that, as of the date of execution of this Agreement, Confidential Information also includes the following (without limitation): the Closets By Design System and all services, products, equipment, technologies, policies, standards, requirements, criteria and procedures that are part of the Closets By Design System now or at any time during the term of my employment/service/association/ownership participation; Franchisor’s Manual; Supplements and amendments to the Manual; Franchisor’s Templates; all Franchisor’s and its Affiliates’ construction patterns for custom closets and home or office organization structural plans; all procedures, systems, techniques and activities employed by Franchisor or by Franchisee in the course of offering and selling custom closet services, other customized organizer services and related products and services from or at the franchised Business and at customer work sites; product designs; compilations of products; product lists; customer lists price book lists; all pricing paradigms established by Franchisor or Franchisee; all of Franchisor’s and/or Franchisee’s sources (or prospective sources) of supply, and all information pertaining to same (including, without limitation, wholesale pricing structures); the computer and hardware and software utilized by Franchisor and/or Franchisee; all information pertaining to Franchisor’s and/or Franchisee’s advertising, marketing, promotion and merchandising campaigns, philosophies, materials,

specifications and procedures; computer network Web site(s), and all information posted on or received at the Web site(s); all Franchisor's instructional materials; quality assurance programs; supervision systems; recommended services; record keeping, bookkeeping and accounting systems and materials; revenue reports; activity schedules; job descriptions; records pertaining to customers; business forms; product and service order forms; general operations materials; revenue reports; specifications, systems, standards, techniques, philosophies and materials, guidelines, policies and procedures concerning the Closets By Design System; additions to, deletions from, and modifications and variations of the components of the Closets By Design System or the systems and methods of operations which Franchisor employs now or at any time during the term of my employment/service/association/ownership participation, including all related standards and specifications and the means and manner of offering and selling them; and, all other components, specifications, standards, requirements and duties which Franchisor or its Affiliates impose.

I will at no time copy, duplicate, record or otherwise reproduce any of the Confidential Information or material containing it, in whole or in part, store them in a computer retrieval or data base, nor otherwise make them available to any unauthorized person. Upon the expiration or other termination for any reason of my employment, association, service or ownership participation, I agree to return to Franchisor or Franchisee, as the case may be, all Confidential Information or material containing it (in whole or in part) in my possession utilized during my employment, association, service or ownership participation.

If all or any portion of this covenant not to use confidential information and not to compete is held unreasonable, void, vague or illegal by any court or agency having valid jurisdiction in an unappealed final decision to which Franchisee and/or Franchisor is a party, the court or agency will be empowered to revise and/or construe the covenant to fall within permissible legal limits, and should not invalidate the entire covenant. I expressly agree to be bound by any lesser covenant subsumed within the terms of this Agreement as if the resulting covenant were separately stated in and made a part of this Agreement.

I agree that this Agreement and all relations and disputes between me on the one hand, and Franchisee or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, are to be exclusively construed in accordance with and/or governed by (as applicable) the law of the State of California without recourse to California (or any other) choice of law or conflicts of law principles. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the franchised Business is located outside of California and the provision would be enforceable under the laws of the state in which the franchised Business is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. **I specifically acknowledge and agree that Franchisor can assign its specific rights under this Agreement to Franchisor's successor in interest.**

I further agree that any litigation arising out of or related to this Agreement; any breach of this Agreement; relations and any and all disputes between me on the one hand, and Franchisee or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, will be instituted exclusively in the Superior Court of the State of California, County of Los Angeles or the United States District Court for the Central District of California. I hereby waive and covenant never to assert or claim that this venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of *forum non conveniens*). I further waive and covenant never to assert or claim that such courts lack personal jurisdiction over me. In the event both such courts lack jurisdiction to enter any requested injunctive relief, an action or proceeding requesting such relief may be brought before any court having jurisdiction to grant such relief.

(Print Name)

(Signature)

(Date)

EXHIBIT 5 - GUARANTEE OF THE CBD FRANCHISING, INC. FRANCHISE AGREEMENT

In consideration of the execution by Franchisor of the Franchise Agreement (the "Franchise Agreement") dated _____, 20 ____ between CBD Franchising, Inc. ("Franchisor") and _____ ("Franchisee") and for other good and valuable consideration, each of the undersigned, for themselves, their heirs, successors, and assigns, do jointly, individually and severally hereby absolutely and unconditionally guarantee the payment of all amounts and the performance of all of the covenants, terms, conditions, agreements and undertakings contained and set forth in said Franchise Agreement and in any other agreement(s) by and between Franchisee and Franchisor.

If more than one person has executed this Guarantee, the term "the undersigned", as used herein, shall refer to each such person, and the liability of each of the undersigned hereunder shall be joint and several and primary as sureties.

The undersigned, individually and jointly, hereby agree to be personally bound by each and every covenant, term, condition, agreement and undertaking contained and set forth in said Franchise Agreement and any other agreement(s) by and between Franchisee and Franchisor, and agree that this Guarantee shall be construed as though the undersigned and each of them executed agreement(s) containing the identical terms and conditions of the Franchise Agreement and any other agreement(s) by and between Franchisee and Franchisor.

The undersigned hereby agree, furthermore, that without the consent of or notice to any of the undersigned and without affecting any of the obligations of the undersigned hereunder: (a) any term, covenant or condition of the Franchise Agreement may be amended, compromised, released or otherwise altered by Franchisor and Franchisee, and the undersigned do guarantee and promise to perform all the obligations of Franchisee under the Agreement as so amended, compromised, released or altered; (b) any guarantor of or party to the Franchise Agreement may be released, substituted or added; (c) any right or remedy under the Agreement, this Guarantee or any other instrument or agreement between Franchisor and Franchisee may be exercised, not exercised, impaired, modified, limited, destroyed or suspended; and, (d) Franchisor or any other person may deal in any manner with Franchisee, any of the undersigned, any party to the Franchise Agreement or any other person.

Should Franchisee be in breach or default under the Franchise Agreement or any other agreement(s) by and between Franchisee and Franchisor, Franchisor may proceed directly against any or each of the undersigned without first proceeding against Franchisee and without proceeding against or naming in such suit any other Franchisee, signatory to the Franchise Agreement or any others of the undersigned.

Notice to or demand upon Franchisee or any of the undersigned shall be deemed notice to or demand upon Franchisee and all of the undersigned, and no notice or demand need be made to or upon any or all of the undersigned. The cessation of or release from liability of Franchisee or any of the undersigned shall not relieve any other Guarantors from liability hereunder, under the Franchise Agreement, or under any other agreement(s) between Franchisor and Franchisee, except to the extent that the breach or default has been remedied or moneys owed have been paid.

Any waiver, extension of time or other indulgence granted by Franchisor or its agents, successors or assigns, with respect to the Franchise Agreement or any other agreement(s) by and between Franchisee and Franchisor, shall in no way modify or amend this Guarantee, which shall be continuing, absolute, unconditional and irrevocable.

It is understood and agreed by the undersigned that the provisions, covenants and conditions of this Guarantee shall inure to the benefit of the Franchisor, its successors and assigns. This Guarantee may be assigned by Franchisor voluntarily or by operation of law without reducing or modifying the liability of the undersigned hereunder.

The Lanham Act (15 U.S.C. §1051 et seq.) governs any issue involving the Proprietary Marks. To the extent applicable, the laws of the State of the Territory govern all issues involving modification of this Guarantee while it is in effect. Except as otherwise provided in Section above, this Guarantee and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of California. Nothing in this Guarantee is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California or any other state, which would not otherwise apply.

Any litigation arising out of or related to this Guarantee will be instituted exclusively in the Superior Court of the State of California, County of Los Angeles or the United States District Court for the Central District of California. Guarantors hereby waive and covenant never to assert or claim that this venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of *forum non conveniens*). Guarantors further hereby waive and covenant never to assert or claim that such courts lack personal jurisdiction over Guarantors. In the event both such courts lack jurisdiction to enter any requested injunctive relief, an action or proceeding requesting such relief may be brought before any court having jurisdiction to grant such relief.

Should any one or more provisions of this Guarantee be determined to be illegal or unenforceable, all other provisions shall nevertheless be effective.

IN WITNESS WHEREOF, each of the undersigned has executed this Guarantee effective as of the date of the Franchise Agreement.

Dated: _____, 20__.

GUARANTORS

Signature of Guarantor

Print Name of Guarantor

Dated: _____, 20__.

Signature of Guarantor

Print Name of Guarantor

EXHIBIT 6 - GENERAL RELEASE - RENEWAL

To all to whom these Presents shall come or may Concern, Know That _____, [a corporation organized under the laws of the State of _____][an individual domiciled in the State of _____] (collectively, as RELEASOR), in consideration of the execution by CBD FRANCHISING, INC. of a Franchise Agreement renewing the franchise between RELEASOR and CBD FRANCHISING, INC. (the "Franchise Agreement"), and other good and valuable consideration, hereby releases and discharges CBD FRANCHISING, INC. as RELEASEE; RELEASEE's corporate parents, subsidiaries or affiliates; and, the respective officers, directors, shareholders, agents, attorneys, contractors and employees of each of the foregoing (in their corporate and individual capacities), along with RELEASEE's heirs, executors, administrators, successors and assigns, from all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, executions, claims and demands whatsoever, in law, admiralty or equity, which against the RELEASEE, the RELEASOR, RELEASOR's heirs, executors, administrators, successors and assigns ever had, now have or hereafter can, shall or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the day of the date of this RELEASE arising out of or related to the Franchise Agreement, including, without limitation, claims arising under federal, state and local laws, rules and ordinances; provided, however, that all liabilities arising under Indiana Code Sec. 23-2-2.7, the Maryland Franchise Registration and Disclosure Law and the Washington Franchise Investment Protection Act, RCW 19.100 and the rules adopted thereunder are excluded from this release, and that all rights enjoyed by RELEASOR under said Franchise Agreement and any causes of action arising in his, her or its 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, Section 687.4 and 687.5 be satisfied. If RELEASOR is domiciled or has his or her principal place of business in the State of California, then RELEASOR hereby expressly waives and relinquishes all rights and benefits under Section 1542 of the California Civil Code, which provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

Whenever the text hereof requires, the use of singular number shall include the appropriate plural number as the text of the within instrument may require.

This RELEASE may not be changed orally.

IN WITNESS WHEREOF, the RELEASOR (if an individual) *has executed this RELEASE*, and (if a corporation) *has caused this RELEASE to be executed by a duly authorized on _____, 20_____.*

RELEASOR

By _____,
_____, President

_____, Individually

_____, Individually

EXHIBIT 7 - GENERAL RELEASE - ASSIGNMENT

To all to whom these Presents shall come or may Concern, Know That [a corporation organized under the laws of the State of _____][an individual domiciled in the State of _____] as RELEASOR, in consideration of the consent of CBD FRANCHISING, INC. to the Assignment of the Franchise Agreement between RELEASOR and CBD FRANCHISING, INC. (the "Franchise Agreement") to _____, and other good and valuable consideration, hereby releases and discharges CBD FRANCHISING, INC. as RELEASEE, RELEASEE's corporate parents, subsidiaries or affiliates and the respective officers, directors, shareholders, agents, attorneys, contractors and employees of each of the foregoing entities (in their corporate and individual capacities), and RELEASEE's heirs, executors, administrators, successors and assigns, from all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, executions, claims and demands whatsoever, in law, admiralty or equity, which against the RELEASEE, the RELEASOR, RELEASOR's heirs, executors, administrators, successors and assigns ever had, now have or hereafter can, shall or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the day of the date of this RELEASE, including, without limitation, claims arising under federal, state and local laws, rules and ordinances; ; provided, however, that all liabilities arising under Indiana Code Sec. 23-2-2. , the Maryland Franchise Registration and Disclosure Law and the Washington Franchise Investment Protection Act, RCW 19.100 and the rules adopted thereunder are excluded from this release, and that all rights enjoyed by RELEASOR under said Franchise Agreement and any causes of action arising in his, her or its 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, Section 687.4 and 687.5 be satisfied. If RELEASOR is domiciled or has his or her principal place of business in the State of California, then RELEASOR hereby expressly waives and relinquishes all rights and benefits under Section 1542 of the California Civil Code, which provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

Whenever the text hereof requires, the use of singular number shall include the appropriate plural number as the text of the within instrument may require.

This RELEASE may not be changed orally.

IN WITNESS WHEREOF, the RELEASOR (if an individual) *has executed this RELEASE*, and (if a corporation) *has caused this RELEASE to be executed by a duly authorized officer on _____, _____.*

RELEASOR

By_____

EXHIBIT 8 - GENERAL RELEASE - TERMINATION

To all to whom these Presents shall come or may Concern, Know That [a corporation organized under the laws of the State of _____][an individual domiciled in the State of _____] as RELEASOR, in consideration of the consent of CBD FRANCHISING, INC. to the termination of the Franchise Agreement between RELEASOR and CBD FRANCHISING, INC. (the "Franchise Agreement"), and other good and valuable consideration, hereby releases and discharges CBD FRANCHISING, INC. as RELEASEE, RELEASEE's corporate parents, subsidiaries or affiliates and the respective officers, directors, shareholders, agents, attorneys, contractors and employees of each of the foregoing entities (in their corporate and individual capacities), and RELEASEE's heirs, executors, administrators, successors and assigns, from all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, executions, claims and demands whatsoever, in law, admiralty or equity, which against the RELEASEE, the RELEASOR, RELEASOR's heirs, executors, administrators, successors and assigns ever had, now have or hereafter can, shall or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the day of the date of this RELEASE, including, without limitation, claims arising under federal, state and local laws, rules and ordinances; ; provided, however, that all liabilities arising under Indiana Code Sec. 23-2-2. , the Maryland Franchise Registration and Disclosure Law and the Washington Franchise Investment Protection Act, RCW 19.100 and the rules adopted thereunder are excluded from this release, and that all rights enjoyed by RELEASOR under said Franchise Agreement and any causes of action arising in his, her or its 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, Section 687.4 and 687.5 be satisfied. If RELEASOR is domiciled or has his or her principal place of business in the State of California, then RELEASOR hereby expressly waives and relinquishes all rights and benefits under Section 1542 of the California Civil Code, which provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

Whenever the text hereof requires, the use of singular number shall include the appropriate plural number as the text of the within instrument may require.

This RELEASE may not be changed orally.

IN WITNESS WHEREOF, the RELEASOR (if an individual) *has executed this RELEASE*, and (if a corporation) *has caused this RELEASE to be executed by a duly authorized officer on _____, _____.*

RELEASOR

By_____

EXHIBIT B

CLOSETS BY DESIGN®

FINANCIAL STATEMENTS

THESE FINANCIAL STATEMENTS ARE PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED HIS OR HER OPINION WITH REGARD TO THEIR CONTENT OR FORM.

CBD Franchising, Inc
Balance Sheets - unaudited
As of February 28, 2023

ASSETS

CURRENT ASSETS

Restricted Cash	\$ 16,510,425
Accounts receivable, net of allowance of doubtful accounts of \$175,274	8,829,269
Prepaid expenses and other current assets	1,021,984
Total current assets	<u>26,361,678</u>

PROPERTY AND EQUIPMENT, net 142,851

OPERATING LEASE RIGHT-OF-USE ASSETS 2,971,317

FRANCHISE AGREEMENTS 1,805,000

GOODWILL 365,053

DEPOSITS 98,628

Total Assets \$ 31,744,527

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities

Bank Overdraft	\$ 36,065
Accounts Payable	7,392,240
Advertising advances and deposits	17,576,092
Accrued Expenses	316,480
Deferred Franchise Fees	-
Operating Lease Liability, Current Portion	352,152
Total current liabilities	<u>25,673,029</u>

Noncurrent Liabilities

Operating Lease Liability, Net of Current Portion 2,723,306

STOCKHOLDER'S EQUITY

Common stock	1,000
Additional paid-in capital	2,340,476
Retained Earnings	150,484,559
	<u>152,826,035</u>
Due from Parent	(149,477,843)
Total stockholder's equity	<u>3,348,192</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY 31,744,527

CBD Franchising, Inc
Statements of Income - unaudited
For the Two Months Ended February 28, 2023

REVENUE

Royalty & Related Income	\$ 15,306,579
Advertising fund management income	289,070
Franchisee fees	178,500
Total revenue	<u>15,774,149</u>

OPERATING EXPENSES

Selling	8,845,038
Administrative	661,472
Total Operating Expenses	<u>9,506,510</u>

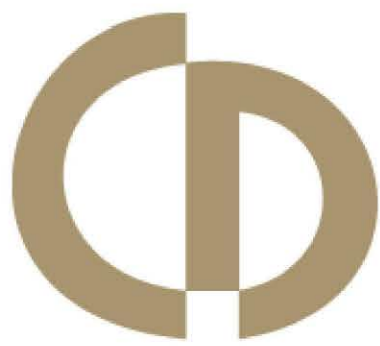
INCOME FROM OPERATIONS	<u>6,267,639</u>
------------------------	------------------

OTHER INCOME	<u>88,509</u>
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INCOME BEFORE INCOME TAX EXPENSE	<u>6,356,148</u>
----------------------------------	------------------

INCOME TAX EXPENSE	<u>-</u>
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NET INCOME	<u><u>\$ 6,356,148</u></u>
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Franchising, Inc.

(A Wholly Owned Subsidiary of Home Organizers, Inc.)

Financial Statements
December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
CBD Franchising, Inc.:

Opinion

We have audited the accompanying financial statements of CBD Franchising, Inc., a wholly owned subsidiary of Home Organizers, Inc. (the Company) (a California corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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, including omissions, 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 the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 2, beginning January 1, 2021, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* and its related amendments using the modified-retrospective transition method. Our opinion is not modified with respect to this matter.



Irvine, California
March 31, 2023

CBD FRANCHISING, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	2022	2021
CURRENT ASSETS		
Cash	\$ 205,924	\$ -
Restricted cash	15,180,271	7,876,521
Accounts receivable, net of allowance for doubtful accounts of \$175,274 in 2022 and 2021	8,525,797	5,406,377
Prepaid expenses and other current assets	635,303	599,192
Total current assets	<u>24,547,295</u>	<u>13,882,090</u>
PROPERTY AND EQUIPMENT, net	148,694	180,750
OPERATING LEASE RIGHT-OF-USE ASSETS	3,038,785	-
FRANCHISE AGREEMENTS	1,805,000	1,805,000
GOODWILL	365,053	365,053
DEPOSITS	<u>98,628</u>	<u>98,628</u>
TOTAL ASSETS	<u>\$ 30,003,455</u>	<u>\$ 16,331,521</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		
Bank overdraft	\$ -	\$ 1,174,331
Accounts payable	5,286,673	4,610,988
Advertising advances and deposits	16,317,066	9,302,125
Accrued expenses	330,703	423,934
Deferred franchise fees	-	80,000
Operating lease liability, current portion	352,152	-
Total current liabilities	<u>22,286,594</u>	<u>15,591,378</u>
NONCURRENT LIABILITIES		
Operating lease liability, net of current portion	<u>2,781,998</u>	<u>-</u>
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDER'S EQUITY		
Common stock, no par value; 1 million shares authorized, issued, and outstanding	1,000	1,000
Additional paid-in capital	2,340,476	2,340,476
Retained earnings	144,128,412	109,412,468
	146,469,888	111,753,944
Due from Parent	<u>(141,535,025)</u>	<u>(111,013,801)</u>
Total stockholder's equity	<u>4,934,863</u>	<u>740,143</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 30,003,455</u>	<u>\$ 16,331,521</u>

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

CBD FRANCHISING, INC.

STATEMENTS OF INCOME

	For the Year Ended December 31,	
	2022	2021
REVENUE		
Royalty and related income	\$ 82,809,190	\$ 66,587,728
Advertising fund management income	1,663,429	1,317,882
Franchise fees	598,703	664,332
Total revenue	<u>85,071,322</u>	<u>68,569,942</u>
OPERATING EXPENSES		
Selling	46,194,194	37,220,021
Administrative	3,745,377	3,600,419
Total operating expenses	<u>49,939,571</u>	<u>40,820,440</u>
INCOME FROM OPERATIONS	35,131,751	27,749,502
OTHER INCOME	<u>112,862</u>	<u>-</u>
INCOME BEFORE INCOME TAX EXPENSE	35,244,613	27,749,502
INCOME TAX EXPENSE	<u>528,669</u>	<u>416,243</u>
NET INCOME	<u>\$ 34,715,944</u>	<u>\$ 27,333,259</u>

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

CBD FRANCHISING, INC.

**STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Due From Parent</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
BALANCE AT DECEMBER 31, 2020	1,000,000	\$ 1,000	2,340,476	82,079,209	(81,382,711)	\$ 3,037,974
NET CHANGE IN DUE FROM PARENT (NOTE 5)	-	-	-	-	(29,631,090)	(29,631,090)
NET INCOME	-	-	-	<u>27,333,259</u>	-	<u>27,333,259</u>
BALANCE AT DECEMBER 31, 2021	1,000,000	1,000	2,340,476	109,412,468	(111,013,801)	740,143
NET CHANGE IN DUE FROM PARENT (NOTE 5)	-	-	-	-	(30,521,224)	(30,521,224)
NET INCOME	-	-	-	<u>34,715,944</u>	-	<u>34,715,944</u>
BALANCE AT DECEMBER 31, 2022	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 2,340,476</u>	<u>\$ 144,128,412</u>	<u>\$(141,535,025)</u>	<u>\$ 4,934,863</u>

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

CBD FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 34,715,944	\$ 27,333,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,452	176,106
Amortization of right-of-use assets	423,387	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,119,420)	(373,461)
Prepaid expenses and other assets	(36,111)	(93,710)
Accounts payable	675,685	1,371,895
Advertising advances and deposits	7,014,941	4,607,954
Accrued expenses	(63,603)	184,124
Deferred franchise fees	(80,000)	(6,000)
Operating lease liabilities	(357,650)	-
Net Cash Provided By Operating Activities	39,269,625	33,200,167
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(64,396)	(83,138)
Net Cash Used In Investing Activities	(64,396)	(83,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in bank overdraft	(1,174,331)	790,983
Net change in due from Parent (Note 5)	(30,521,224)	(29,631,090)
Net Cash Used In Financing Activities	(31,695,555)	(28,840,107)
CHANGE IN CASH AND RESTRICTED CASH	7,509,674	4,276,922
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	7,876,521	3,599,599
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 15,386,195	\$ 7,876,521

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

CBD FRANCHISING, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

NOTE 1 – Organization

CBD Franchising, Inc. (the Company) is engaged in the business of selling franchises for the operation of custom organization systems design and installation establishments. The Company was incorporated in March 2001, and is a wholly owned subsidiary of Home Organizers, Inc. (the Parent), operating in Garden Grove, California. The Company enters into franchise agreements with franchisees, which govern their arrangement and provide for royalties, advertising, material purchases, and other terms. The Company sold zero and seven franchises during 2022 and 2021, respectively. There were seventy-seven outlets operated by fifty-nine franchises in operation during 2022 and 2021.

NOTE 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting policies generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the carrying amounts of franchise agreements and goodwill, and the allowances for doubtful accounts and notes receivable. Actual results could differ from those estimates.

Cash

At times, cash balances, including restricted cash, may be in excess of the amount insured by the Federal Deposit Insurance Corporation.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Restricted Cash

Restricted cash includes advertising advances and deposits from franchisees for the purpose of national and regional advertising. The use of these funds is restricted for advertising costs and to pay certain costs incurred to benefit the franchisees. The funds cannot be utilized for the Company's advertising expenses in connection with the sale of franchises.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash, and accounts and notes receivable. Accounts and notes receivable subject the Company to the potential for credit risk as the Company grants credit to nearly all of its customers. The home improvement and construction industries are impacted by the general economy, competition within the industry, and the general geographic area. The Company's franchises are located in the United States and Canada.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions, the financial condition of the Company's customers, the amount of receivables in dispute, and the current receivables aging and payment patterns.

The franchise agreements provide the Company the right to terminate the franchise for nonpayment of royalties and advertising funds. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives of three to seven years. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the respective asset. Expenditures that materially increase the assets' lives are capitalized, while ordinary maintenance and repairs are charged to operations as incurred. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as deemed necessary.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Goodwill and Franchise Agreements

The Company evaluates goodwill and other intangible assets with an indefinite useful life, such as franchise agreements, for impairment at the reporting unit level at least annually.

The Company may first assess goodwill for qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If, after assessing the qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the Company is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. The Company has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period.

Other indefinite-lived intangible assets, such as franchise agreements that arose from historical business acquisitions, are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it’s more likely than not that the asset is impaired. The Company may first perform a qualitative assessment to determine whether it is necessary to perform a quantitative impairment test. The Company has an unconditional option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

As of December 31, 2022 and 2021, management completed an analysis of goodwill and franchise agreements and concluded that there was no impairment.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Advertising Receivables, Advances and Deposits, and Fund Management Income

The Company has receivables and receives advertising funds from the franchisees to provide local, regional, and national advertisements for the benefit of the franchisees. These receivables, advances, and deposits are based on a fixed percentage of gross revenue of each franchisee. These funds are restricted and segregated. The Company accounts for the receipt of advertising funds as restricted cash and the advertising costs incurred are charged against the liability account. The franchise agreements allow the Company to retain a percentage of the advertising funds as compensation for its administration over the accounts. During the years ended December 31, 2022 and 2021, the Company received \$1,663,429 and \$1,317,882, respectively, as compensation for its administration over the accounts, which are accounted for as advertising fund management income in the accompanying statements of income.

The Company can use the funds to protect the value of the franchises and intellectual property, for the expenses of national conferences, and for the completion of faulty or abandoned work. The funds are also utilized for directly related advertising expenses allocated from the Parent on behalf of franchisees for both local, regional, and national advertising campaigns. In addition, the national advertising fund guarantees the collection of any advertising receivables related to direct billings to the franchisees by the Company or the Parent for local, regional, or national advertising campaigns placed on behalf of franchisees.

Common Control Leasing Arrangement

Accounting standards permit a private company lessee (the reporting entity) to elect an accounting alternative not to apply variable interest entity (VIE) guidance to a commonly controlled lessor if (a) the private company lessee and lessor entity are under common control, (b) the private company lessee has a lease arrangement with the lessor entity, (c) substantially all of the activities between the private company lessee and lessor entity are related to leasing activities (including supporting leasing activities) between those two entities, and (d) if the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee of collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. The Company has elected not to apply VIE guidance to a commonly controlled lessor entity, Garden Grove One LLC (see Note 6), having determined that the leasing arrangement meets the established criteria.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company's revenue consist of royalty and related income, advertising and fund management income, and franchise fees.

Revenue is recognized when performance obligations are satisfied in an amount reflecting the consideration to which the Company expects to be entitled. Royalties and management fees represent variable consideration as they are based on franchisee revenue and are, therefore, recognized on a monthly basis over the term of the franchise agreements as the performance obligations are satisfied.

For initial and franchise renewal fees, the Company applies a practical expedient that permits private company franchisors to account for pre-opening services provided to a franchisee as distinct from the franchise license and has elected to recognize the pre-opening services as a single performance obligation. Initial franchise and renewal fees are recognized upon commencement of franchise operations and contract renewal, which is when the single performance obligation of pre-opening services is substantially satisfied. Until such obligation is satisfied, initial and renewal franchise fees collected are recorded as the contract liability, deferred franchise fees.

Advertising

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense totaled \$43,831,414 and \$35,069,308 for the years ended December 31, 2022 and 2021, respectively, which is included in selling expenses in the accompanying statements of income.

Income Taxes

The Company is a member of a group which files a consolidated tax return with its Parent. The Company reports its own current income tax expense at the applicable tax rates based on income at the Company level. The Parent is taxed as an S corporation and the Company is a qualified subchapter S subsidiary. Accordingly, the Parent does not pay federal corporate income taxes and, therefore, there is no allocation of such income tax to the Company as part of the group consolidated federal tax return. Under this election, the Parent is required to pay a 1.5% California franchise tax based on the Company's income. Income or losses of the Company are included in the individual income tax returns of the stockholders.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties accrued on unrecognized tax benefits as a component of income tax expense.

The Company's tax years remain open for examination by the tax authorities under the normal three-year statute of limitations for federal purposes and four-year statute of limitations for state tax purposes.

Leasing Arrangements

In February 2016, the Financial Accounting Standards Board (FASB) issued new lease accounting guidance in Accounting Standards Update (ASU) 2016-02 *Leases* (Topic 842) (ASU 2016-02), which modifies lease accounting for lessees to increase transparency and comparability by requiring the Company to recognize a lease liability and related right-of-use assets for all leases (with the exception of short-term leases) at the commencement date of the lease and to disclose key information about leasing arrangements.

Effective January 1, 2022, the Company adopted ASU 2016-02. The Company determines if an arrangement contains a lease at inception based on whether the Company has the right to control the asset during the contract period and other facts and circumstances. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The Company's policy for determining its lease discount rate used measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Company has elected to use its incremental borrowing rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Company has elected a policy to account for short-term leases, defined as any lease with a term less than twelve months, by recognizing all components of the lease payment in the statements of income in the period in which the obligation for the payments is incurred.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Leasing Arrangements (Continued)

The Company adopted ASU 2016-02 utilizing the modified-retrospective transition method through a cumulative-effect adjustment. The adoption of ASU 2016-02 resulted in the recognition of right-of-use-assets of \$3,462,172 and operating lease liabilities of \$3,491,800 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment. The adoption of ASU 2016-02 did not have a material impact on the Company's results of operations or cash flows.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 financial statements presentation.

Subsequent Events

Management of the Company evaluates the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated subsequent events through March 31, 2023, the date these financial statements were available to be issued.

NOTE 3 – Property and Equipment

A summary of property and equipment is as follows:

	December 31,	
	2022	2021
Office equipment	\$ 199,721	\$ 189,469
Leasehold improvements	741,109	665,965
	<u>940,830</u>	<u>855,434</u>
Accumulated depreciation and amortization	(792,136)	(695,684)
	148,694	159,750
Construction in progress	<u>-</u>	<u>21,000</u>
Property and equipment, net	<u>\$ 148,694</u>	<u>\$ 180,750</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2022 and 2021 was \$96,452 and \$176,106, respectively.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 – Lease Arrangements

The Company leases its office under an operating lease with an 11-year term. Extension of this lease will be negotiated at the end of the current lease term.

While the agreement provides for minimum lease payments, it also includes payments adjusted based on market rates. Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The following summarizes the line items in the balance sheet as of year-end:

	December 31,	
	2022	2021
Operating lease right-of-use asset	<u>\$ 3,038,785</u>	<u>\$ -</u>
Current portion of operating lease liability	\$ 352,152	\$ -
Long-term portion of operating lease liability	<u>2,781,998</u>	<u>-</u>
	<u>\$ 3,134,150</u>	<u>\$ -</u>

The components of operating lease expenses that are included in administrative expenses in the accompanying statements of income were as follows for the year ended December 31, 2022:

Operating lease costs	<u>\$ 425,248</u>
	<u>\$ 425,248</u>

The following summarizes the cash flow information related to leases:

	For the Year Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from operating lease	\$ 373,651	\$ -

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 – Lease Arrangements (Continued)

Weighted average lease terms and discount rate as of December 31, 2022 were as follows:

Weighted-average remaining lease term - operating lease	9.5 years
Weighted-average discount rate - operating lease	5.00%

The maturities of the operating lease liability as of December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2023	\$ 386,729
2024	400,264
2025	414,273
2026	428,773
2027	443,780
Thereafter	<u>2,195,722</u>
Total minimum lease payments	4,269,541
Less amount representing interest	<u>(1,135,391)</u>
Present value of minimum lease payments	3,134,150
Less current portion	<u>(352,152)</u>
	<u>\$ 2,781,998</u>

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 5 – Related-Party Transactions

Activity in the Due from Parent account is as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 111,013,801	\$ 81,382,711
Net cash transferred to Parent	33,323,461	31,191,541
Allocation of income taxes	(528,912)	(416,243)
Materials, salaries, management fee and administrative expenses paid by Parent	<u>(2,273,325)</u>	<u>(1,144,801)</u>
Balance at end of year	<u>\$ 141,535,025</u>	<u>\$ 111,013,208</u>

Certain operating expenses are incurred by the Parent and are allocated to the Company. These expenses include materials, salaries, and corporate expenses. The Parent also charges the Company's National Promotion and Protection Fund for marketing support, totaling \$60,000 for the years ended December 31, 2022 and 2021. These allocated expenses are either charged to operations or reimbursed from restricted cash as deemed appropriate. The total amount charged to operations totaled \$2,273,325 and \$1,144,801 for the years ended December 31, 2022 and 2021, respectively.

Over the years, the Parent has taken advances from the Company. The total amount due from the Parent is not likely to be collected in the foreseeable future, so such amounts have been classified as contra-equity in the accompanying balance sheets and the net change in the balance during the reporting periods is included in financing activities in the accompanying statements of cash flows. The impact of such advances to the Parent can impact the overall liquidity, working capital, and equity of the Company.

The financial position of the Company and the results of its operations and cash flows may have differed had the Company not been affiliated with its Parent.

The Company has a long-term operating lease with a related party under common ownership. (See Note 4.)

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 6 – Commitments and Contingencies

Legal Proceedings

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity.

Guarantees

The Parent of the Company has a credit agreement (the Credit Agreement) of which the Company is a guarantor. The Credit Agreement provides for an aggregate of \$40,000,000 in borrowings, comprising a \$30,000,000 senior term loan (the Term Loan) and a \$10,000,000 revolving line of credit. Such borrowings are collateralized by substantially all the assets and stock of the Parent and its subsidiaries, including the Company. The Term Loan is payable in quarterly installments of principal and interest and matures on December 30, 2026. The interest rate on the Term Loan is the average secured overnight financing rate (SOFR) rate plus credit margin of 1.50%. The effective interest rate was approximately 5.93% as of December 31, 2022. As of December 31, 2022, the aggregate outstanding balance on the Credit Agreement was \$27,000,000.

The Parent of the Company has a master lease agreement, of which the Company is a guarantor. Finance leases under the agreement are collateralized by the underlying leased assets. Finance leases outstanding bear interest at rates ranging from 5.0% to 5.8% and aggregate borrowings under this agreement were approximately \$7,000 as of December 31, 2022.

In addition, there are various other loans in which the Parent is a guarantor. If the Parent or related LLCs were to default on these debt arrangements, the Parent and Company could become responsible for the unpaid balances. Management has evaluated the likelihood of a default by the Parent and LLCs and has determined such an event to be a remote possibility. As such, no contingent liability has been recorded in the accompanying financial statements related to these guarantees.



Closets
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Franchising, Inc.

(A Wholly Owned Subsidiary of Home Organizers, Inc.)

Financial Statements
December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
CBD Franchising, Inc.:

Opinion

We have audited the accompanying financial statements of CBD Franchising, Inc., a wholly owned subsidiary of Home Organizers, Inc. (the Company) (a California corporation), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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, including omissions, 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 the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Winder, Inc.

Irvine, California
March 31, 2022

CBD FRANCHISING, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	2021	2020
CURRENT ASSETS		
Restricted cash	\$ 7,876,521	\$ 3,599,599
Accounts receivable, net of allowance for doubtful accounts of \$175,274 in 2021 and \$200,542 in 2020	5,406,377	5,032,916
Prepaid expenses and other current assets	599,192	538,555
Total current assets	13,882,090	9,171,070
PROPERTY AND EQUIPMENT, net	180,750	273,718
FRANCHISE AGREEMENTS	1,805,000	1,805,000
GOODWILL	365,053	365,053
DEPOSITS	98,628	65,555
TOTAL ASSETS	\$ 16,331,521	\$ 11,680,396

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		
Bank overdraft	\$ 1,174,331	\$ 383,348
Accounts payable	4,610,988	3,239,093
Advertising advances and deposits	9,302,125	4,694,171
Accrued expenses	423,934	239,810
Deferred franchise fees	80,000	86,000
Total current liabilities	15,591,378	8,642,422
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDER'S EQUITY		
Common stock, no par value; 1 million shares authorized, issued, and outstanding	1,000	1,000
Additional paid-in capital	2,340,476	2,340,476
Retained earnings	109,412,468	82,079,209
	111,753,944	84,420,685
Due from Parent	(111,013,801)	(81,382,711)
Total stockholder's equity	740,143	3,037,974
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 16,331,521	\$ 11,680,396

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

CBD FRANCHISING, INC.

STATEMENTS OF INCOME

	For the Year Ended December 31,	
	2021	2020
REVENUE		
Royalty and related income	\$ 67,456,469	\$ 44,716,864
Advertising fund management income	449,141	872,359
Franchise fees	664,332	731,466
Total revenue	<u>68,569,942</u>	<u>46,320,689</u>
OPERATING EXPENSES		
Selling	37,220,021	24,865,442
Administrative	3,600,419	3,180,162
Total operating expenses	<u>40,820,440</u>	<u>28,045,604</u>
INCOME FROM OPERATIONS	27,749,502	18,275,085
OTHER INCOME	<u>-</u>	<u>24,627</u>
INCOME BEFORE INCOME TAX EXPENSE	27,749,502	18,299,712
INCOME TAX EXPENSE	<u>416,243</u>	<u>274,496</u>
NET INCOME	<u>\$ 27,333,259</u>	<u>\$ 18,025,216</u>

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

CBD FRANCHISING, INC.

**STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Due From Parent</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
BALANCE AT DECEMBER 31, 2019	1,000,000	\$ 1,000	\$ 2,340,476	\$ 64,053,993	\$ (63,516,885)	\$ 2,878,584
NET CHANGE IN DUE FROM PARENT (NOTE 4)	-	-	-	-	(17,865,826)	(17,865,826)
NET INCOME	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,025,216</u>	<u>-</u>	<u>18,025,216</u>
BALANCE AT DECEMBER 31, 2020	1,000,000	1,000	2,340,476	82,079,209	(81,382,711)	3,037,974
NET CHANGE IN DUE FROM PARENT (NOTE 4)	-	-	-	-	(29,631,090)	(29,631,090)
NET INCOME	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,333,259</u>	<u>-</u>	<u>27,333,259</u>
BALANCE AT DECEMBER 31, 2021	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 2,340,476</u>	<u>\$ 109,412,468</u>	<u>\$(111,013,801)</u>	<u>\$ 740,143</u>

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

CBD FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 27,333,259	\$ 18,025,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	176,106	163,667
Changes in operating assets and liabilities:		
Accounts receivable	(373,461)	(1,198,216)
Prepaid expenses and other assets	(93,710)	208,623
Accounts payable	1,371,895	353,985
Advertising advances and deposits	4,607,954	1,584,329
Accrued expenses	184,124	64,269
Deferred franchise fees	(6,000)	(35,696)
Net Cash Provided By Operating Activities	33,200,167	19,166,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(83,138)	(36,151)
Net Cash Used In Investing Activities	(83,138)	(36,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in bank overdraft	790,983	10,164
Net change in due from Parent (Note 4)	(29,631,090)	(17,865,826)
Net Cash Used In Financing Activities	(28,840,107)	(17,855,662)
CHANGE IN CASH AND RESTRICTED CASH	4,276,922	1,274,364
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	3,599,599	2,325,235
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 7,876,521	\$ 3,599,599

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

CBD FRANCHISING, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

NOTE 1 – Organization

CBD Franchising, Inc. (the Company) is engaged in the business of selling franchises for the operation of custom organization systems design and installation establishments. The Company was incorporated in March 2001, and is a wholly owned subsidiary of Home Organizers, Inc. (the Parent), operating in Garden Grove, California. The Company enters into franchise agreements with franchisees, which govern their arrangement and provide for royalties, advertising, material purchases, and other terms. The Company sold seven and six franchises during 2021 and 2020, respectively. There were seventy-seven and seventy-one outlets operated by fifty-nine and fifty-six franchises in operation during 2021 and 2020, respectively.

NOTE 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting policies generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the carrying amounts of franchise agreements and goodwill, and the allowances for doubtful accounts and notes receivable. Actual results could differ from those estimates.

Cash

At times, cash balances, including restricted cash, may be in excess of the amount insured by the Federal Deposit Insurance Corporation.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Restricted Cash

Restricted cash includes advertising advances and deposits from franchisees for the purpose of national and regional advertising. The use of these funds is restricted for advertising costs and to pay certain costs incurred to benefit the franchisees. The funds cannot be utilized for the Company's advertising expenses in connection with the sale of franchises.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash, and accounts and notes receivable. Accounts and notes receivable subject the Company to the potential for credit risk as the Company grants credit to nearly all of its customers. The home improvement and construction industries are impacted by the general economy, competition within the industry, and the general geographic area. The Company's franchises are located in the United States and Canada.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions, the financial condition of the Company's customers, the amount of receivables in dispute, and the current receivables aging and payment patterns.

The franchise agreements provide the Company the right to terminate the franchise for nonpayment of royalties and advertising funds. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives of three to seven years. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the respective asset. Expenditures that materially increase the assets' lives are capitalized, while ordinary maintenance and repairs are charged to operations as incurred. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as deemed necessary.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Goodwill and Franchise Agreements

The Company evaluates goodwill and other intangible assets with an indefinite useful life, such as franchise agreements, for impairment at the reporting unit level at least annually.

The Company may first assess goodwill for qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If, after assessing the qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the Company is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. The Company has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period.

Other indefinite-lived intangible assets, such as franchise agreements that arose from historical business acquisitions, are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it’s more likely than not that the asset is impaired. The Company may first perform a qualitative assessment to determine whether it is necessary to perform a quantitative impairment test. The Company has an unconditional option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

As of December 31, 2021 and 2020, management completed an analysis of goodwill and franchise agreements and concluded that there was no impairment.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Advertising Receivables, Advances and Deposits, and Fund Management Income

The Company has receivables and receives advertising funds from the franchisees to provide local, regional, and national advertisements for the benefit of the franchisees. These receivables, advances, and deposits are based on a fixed percentage of gross revenue of each franchisee. These funds are restricted and segregated. The Company accounts for the receipt of advertising funds as restricted cash and the advertising costs incurred are charged against the liability account. The franchise agreements allow the Company to retain a percentage of the advertising funds as compensation for its administration over the accounts. During the years ended December 31, 2021 and 2020, the Company received \$1,317,882 and \$872,359, respectively, as compensation for its administration over the accounts, which are accounted for as advertising fund management income in the accompanying statements of income.

The Company can use the funds to protect the value of the franchises and intellectual property, for the expenses of national conferences, and for the completion of faulty or abandoned work. The funds are also utilized for directly related advertising expenses allocated from the Parent on behalf of franchisees for both local, regional, and national advertising campaigns. In addition, the national advertising fund guarantees the collection of any advertising receivables related to direct billings to the franchisees by the Company or the Parent for local, regional, or national advertising campaigns placed on behalf of franchisees.

Deferred Rent

The Company records rent expense related to its noncancelable operating leases on a straight-line basis over the term of the lease. The cumulative difference between rent expense as recognized by the Company and actual rent payments to date is reflected as deferred rent, which is included in accrued expenses in the accompanying balance sheets.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Common Control Leasing Arrangement

Accounting standards permit a private company lessee (the reporting entity) to elect an accounting alternative not to apply variable interest entity (VIE) guidance to a commonly controlled lessor if (a) the private company lessee and lessor entity are under common control, (b) the private company lessee has a lease arrangement with the lessor entity, (c) substantially all of the activities between the private company lessee and lessor entity are related to leasing activities (including supporting leasing activities) between those two entities, and (d) if the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee of collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. The Company has elected not to apply VIE guidance to a commonly controlled lessor entity, Garden Grove One LLC (see Note 5), having determined that the leasing arrangement meets the established criteria.

Revenue Recognition

The Company's revenue consist of royalty and related income, advertising and fund management income, and franchise fees.

Revenue is recognized when performance obligations are satisfied in an amount reflecting the consideration to which the Company expects to be entitled. Royalties and management fees represent variable consideration as they are based on franchisee revenue and are, therefore, recognized on a monthly basis over the term of the franchise agreements as the performance obligations are satisfied.

For initial and franchise renewal fees, the Company applies a practical expedient that permits private company franchisors to account for pre-opening services provided to a franchisee as distinct from the franchise license and has elected to recognize the pre-opening services as a single performance obligation. Initial franchise and renewal fees are recognized upon commencement of franchise operations and contract renewal, which is when the single performance obligation of pre-opening services is substantially satisfied. Until such obligation is satisfied, initial and renewal franchise fees collected are recorded as the contract liability, deferred franchise fees.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Advertising

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense totaled \$35,069,308 and \$23,025,552 for the years ended December 31, 2021 and 2020, respectively, which is included in selling expenses in the accompanying statements of income.

Income Taxes

The Company is a member of a group which files a consolidated tax return with its Parent. The Company reports its own current income tax expense at the applicable tax rates based on income at the Company level. The Parent is taxed as an S corporation and the Company is a qualified subchapter S subsidiary. Accordingly, the Parent does not pay federal corporate income taxes and, therefore, there is no allocation of such income tax to the Company as part of the group consolidated federal tax return. Under this election, the Parent is required to pay a 1.5% California franchise tax based on the Company's income. Income or losses of the Company are included in the individual income tax returns of the stockholders.

In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties accrued on unrecognized tax benefits as a component of income tax expense.

The Company's tax years remain open for examination by the tax authorities under the normal three-year statute of limitations for federal purposes and four-year statute of limitations for state tax purposes.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued new lease accounting guidance in ASU 2016-02 *Leases* (Topic 842). Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date of the lease and disclose key information about leasing arrangements. ASU 2016-02 will be effective for the Company on January 1, 2022 and will be applied on a modified-retrospective basis. The Company is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its financial position, results of operations, and cash flows.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management of the Company evaluates the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated subsequent events through March 31, 2022, the date these financial statements were available to be issued.

NOTE 3 – Property and Equipment

A summary of property and equipment is as follows:

	December 31,	
	2021	2020
Office equipment	\$ 189,469	\$ 127,330
Leasehold improvements	665,965	665,965
	855,434	793,295
Accumulated depreciation and amortization	(695,684)	(519,577)
	159,750	273,718
Construction in progress	21,000	-
Property and equipment, net	<u>\$ 180,750</u>	<u>\$ 273,718</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2021 and 2020 was \$176,106 and \$163,667, respectively.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 – Related-Party Transactions

Activity in the Due from Parent account is as follows:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 81,382,711	\$ 63,516,885
Net cash transferred to Parent	31,191,541	19,479,130
Allocation of income taxes	(416,243)	(274,496)
Materials, salaries, management fee and administrative expenses paid by Parent	<u>(1,144,208)</u>	<u>(1,338,808)</u>
Balance at end of year	<u>\$111,013,801</u>	<u>\$ 81,382,711</u>

Certain operating expenses are incurred by the Parent and are allocated to the Company. These expenses include materials, salaries, and corporate expenses. The Parent also charges the Company's National Promotion and Protection Fund for marketing support, totaling \$60,000 for the years ended December 31, 2021 and 2020. These allocated expenses are either charged to operations or reimbursed from restricted cash as deemed appropriate. The total amount charged to operations totaled \$1,187,609 and \$1,338,808 for the years ended December 31, 2021 and 2020, respectively.

Over the years, the Parent has taken advances from the Company. The total amount due from the Parent is not likely to be collected in the foreseeable future, so such amounts have been classified as contra-equity in the accompanying balance sheets and the net change in the balance during the reporting periods is included in financing activities in the accompanying statements of cash flows. The impact of such advances to the Parent can impact the overall liquidity, working capital, and equity of the Company.

The financial position of the Company and the results of its operations and cash flows may have differed had the Company not been affiliated with its Parent.

In June 2017, the Company entered into a long-term operating lease with a related party under common ownership. (See Note 5.) Rent paid to the related party totaled \$302,411 and \$248,766 for the years ended December 31, 2021 and 2020, respectively.

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 – Commitments and Contingencies

Legal Proceedings

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity.

Operating Leases

In June 2017, the Company entered into an operating lease for an office facility with Garden Grove One LLC (the LLC), a related party through common ownership. In August 2021, the Company extended its lease through June 2032. The Company is obligated to pay for maintenance, property taxes, and insurance for this facility in addition to the base rent.

Rent expense totaled \$323,957 and \$243,710 for the years ended December 31, 2021 and 2020, respectively.

Future minimum operating lease payments, all payable to the LLC, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 373,651
2023	386,729
2024	400,264
2025	414,273
2026	428,773
Thereafter	<u>2,639,503</u>
	<u>\$ 4,643,193</u>

CBD FRANCHISING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 – Commitments and Contingencies (Continued)

Guarantees

The Parent of the Company has a credit agreement (the Credit Agreement) of which the Company is a guarantor. On December 30, 2021, the Company refinanced its credit agreement. The Credit Agreement provides for an aggregate of \$40,000,000 in borrowings, comprising a \$30,000,000 senior term loan (the Term Loan) and a \$10,000,000 revolving line of credit. Such borrowings are collateralized by substantially all the assets and stock of the Parent and its subsidiaries, including the Company. The Term Loan is payable in quarterly installments of principal and interest and matures on December 30, 2026. The interest rate on the Term Loan is the Average SOFR rate plus credit margin of 2.25%. The effective interest rate was approximately 2.54% as of December 31, 2021. As of December 31, 2021, the aggregate outstanding balance on the Credit Agreement was \$30,000,000.

The Parent of the Company has a master lease agreement, of which the Company is a guarantor. Capital leases under the agreement are collateralized by the underlying leased assets. Capital leases outstanding bear interest at rates ranging from 5.0% to 5.8% and aggregate borrowings under this agreement were approximately \$69,000 as of December 31, 2021.

In addition, there are various other loans in which the Parent is a guarantor. If the Parent or related LLCs were to default on these debt arrangements, the Parent and Company could become responsible for the unpaid balances. Management has evaluated the likelihood of a default by the Parent and LLCs and has determined such an event to be a remote possibility. As such, no contingent liability has been recorded in the accompanying financial statements related to these guarantees.

EXHIBIT C

CLOSETS BY DESIGN®

LIST OF FRANCHISE OUTLETS

CLOSETS BY DESIGN - MATURED FRANCHISE LOCATION LIST AS OF DECEMBER 31 2022 FOR FDD

Location	Owner	Street Address	City	ST	Zip	Phone	Mobile No.
Birmingham	Tyree & Sireka Melton	3806 1st Ave North	Birmingham	AL	35222	205-777-4000	T:205.957.3960 S:205.356.2701
Arizona	Gil Santos	2093 E. Magnolia St.	Phoenix	AZ	85034	602-875-0670	G:407.252.4172
Fresno	Troy Brandt	2575 So. Sarah St.	Fresno	CA	93706	559-453-7034	T: 559.554.5697
Denver	Dan & Corbin Johnson	901 S. Jason Street, Unit A	Denver	CO	80223	303-683-5181	D: 303.868.7292
Connecticut West	Justin & Michelle Gonzalez	159 Grassy Plain St., Unit 1	Bethel	CT	06801	203-347-0485	J: 860.655.2964 M: 561.866.7931
Fort Myers	Stephen Carreiro	2645 NE 9th Avenue, Unit #2	Cape Coral	FL	33909	239-574-2900	S: 239.410.9438
Jacksonville	Mark and Frances Hutto	3728 Philips Highway, Suite 301	Jacksonville	FL	32207	904-878-9393	M: 904.305.1138
Miami	Roberto Freschi Bugallo & Jorge Rassi Urbano	9320 NW 100th St.	Medley	FL	33178	786-631-3070	R: 786.325.9822
Orlando	Brian Gruber & Scott McCreary	6728 Edgewater Commerce Pkwy	Orlando	FL	32810	407-203-4004	B: 479.387.2650 S:423.432.2361
Pensacola	Jimmy & Samantha Floyd	27 Mason Lane, Unit B	Pensacola	FL	32505	850-637-1000	J: 256.302.3942 S:256.506.7785
South Florida	Mitch Saccareccia & Jennifer Johnson	2518 N Andrews Avenue Extension	Pompano Beach	FL	33064	954-399-8280	J: 772.233.0678 M: 702.648.9609
Tampa	Paul Tomey & Travis Chambers	6551 43rd Street N, #1405	Pinellas Park	FL	33781	727-540-9000	P: 727.417.9633 T:727.295.8185
W Palm Beach	Jennifer Johnson	3209 S.W. 42nd Ave	Palm City	FL	34990	772-210-5398	J: 772.233.0678
Atlanta	Steve & Stephanie Parmer	3165 Corners North Court	Peachtree Corners	GA	30071	770-418-2112	Steve:706.421.3765 Steph:706.504.8807
Des Moines	Thomas Brown	1850 SE Destination Drive, Ste. C	Grimes	IA	50111	515-318-5710	T: 515.422.6386
Chicago Downtown	Michael Cornins	5555 N. Northwest Highway	Chicago	IL	60630	312-212-3144	M 312.259.8822
Chicago North	Paul Paluch Jamie Trewartha	802 East Devon Avenue	Bartlett	IL	60103	630-501-0190	P:630.880.4657 J:847.322.3051
Chicago South	Paul Ridsdale	4820 Venture St.	Lisle	IL	60532	630-906-0000	P: 502.322.4960
Indianapolis	Anthony Rund	1810 South Lynhurst Dr. Suite Q, R & S	Indianapolis	IN	46241	317-766-9001	A: 317-766.2795
Louisville	Jeff Speedy	1301 Herr Lane, Suite 105	Louisville	KY	40222	502-425-4728	J: 502.836.5187
New Orleans	Scott & Caryn McDougal	72397 Industry Park	Covington	LA	70435	985-247-0230	S:504.975.3784 C:504.352.0194
Boston	Jeff Mitchell	2 Shaker Road, Unit C110	Shirley	MA	01464	978-425-6340	J:781.375.8232
SE Michigan	Gary & Matt Dion	500 S. Glaspie	Oxford	MI	48371	248-499-9774	G: 248.425.0185 M: 248.933.5561
W Michigan	Jonathon Bird	3650 Broadmoor Ave SE, Suite 101	Grand Rapids	MI	49512	616-214-3899	J: 720-360-7057
Minneapolis	Bob & Sarah Eppard	13070 Highway 55	Plymouth	MN	55441	763-519-1171	B: 612.940.6104 S:612.309.4043
St. Louis	Patrick Cummins	149 Weldon Parkway, Suite 122	Maryland Heights	MO	63043	314-733-9855	P: 314.327.5215
Charlotte	Laura & Eric Vansickle	1108 Continental Blvd., Suite A	Charlotte	NC	28273	704-588-7272	E: 704.361.5788 L: 704.361.6424
Raleigh	Dave & Chantale Persinger	4850 Atlantic Ave.	Raleigh	NC	27604	919-850-9030	C: 919.621.4937 D:919.795.9692
C New Jersey	Alec & Rita Greysier	2080 E State Street	Hamilton	NJ	8619	609-689-0099	A: 718.757.2716
N New Jersey	Norman Holtz	40 Veterans Blvd	Carlstadt	NJ	7072	201-964-9600	N: 551.486.3488
Reno	Ron Wilhite	1375 Greg Street, Suite 101	Sparks	NV	89431	775-828-1900	R: 775.240.9326 C:775.240.9344
Long Island	Matt Caemmerer	125 Wilbur Place, Suite 160	Bohemia	NY	11716	631-242-4302	M: 631.379.6574
Cincinnati	Brett DeCurtins & LV Semona	11275 Deerfield Road	Cincinnati	OH	45242	513-469-6130	B: 513-604-0495 L: 513-919-2409
Cleveland	Dan Krawczonek	15504 Madison	Lakewood	OH	44107	216-221-1300	D: 330.635.9352
Columbus	Chris Marth	671 Kintner Parkway	Sunbury	OH	43074	740-965-4567	C: 614.390.4839
Pittsburgh	Peter Donina	100 Detroit Avenue, Suite C	Washington	PA	15301	724-503-4821	P: 412.916.4211
SE Penn	Charles Waterman	60 Three Tun Rd. Ste. 1	Malvern	PA	19355	610-644-4143	C: 610.716.1446
Charleston	Troy & Dena Brown	7260 Investment Drive	N. Charleston	SC	29418	843-225-6725	T: 704.756.6429 D:704.756.9539
Spartanburg	Ben Ratterree	2100 Drayton Road (PO Box 727)	Drayton	SC	29333	864-595-7074	B: 864.680.7768
Nashville	Mark & Sandra Sokol	118 Fort Granger Drive	Franklin	TN	37064	615-261-8700	M:615.533.2641 S:615.533.2640
Austin/SanAntonio	John Stodghill	1611 Headway Circle, Building #3	Austin	TX	78754	512-271-6945	J: 415.407.4634
Dallas	Jay & Lisa Hemby	14500 E Beltwood Pkwy	Dallas	TX	75244	972-361-0010	J:972.670.7482 L:972.670.9072
Houston North	Brandon Hansen	15800 W. Hardy Road, Suite 580	Houston	TX	77060	281-807-4400	B: 281.653.8509
Houston South	Cornie & Jeremy Hartman	12603 Executive Drive	Stafford	TX	77477	346-304-6465	C: 832.541.3190
Salt Lake City South	Bryce Till	2560 South 300 West	Salt Lake City	UT	84115	385-630-4972	B: 435.260.2782
Richmond	Hugh Toland	116 Sylvia Road, Suite H & I	Ashland	VA	23005	804-299-3587	H: 703.622.2729
Wash DC	Geoff Davenport & Matthew Hein	6962 Wellington Road	Manassas	VA	20109	703-330-8382	G: 571.722.6108 M:703.328.0392
Seattle North	Kelly Reed	7533 W. Bostian Rd., Bldg C-1	Woodinville	WA	98072	425-523-1155	K: 425.999.2923 T: 614.595.5324
Tacoma	Kevin & Mike Jepson	1857 South 216th St.	Seattle	WA	98198	253-896-4800	K: 206.261.6027 M:206.856.0068
Milwaukee	Doug & Cindy Gauert	6040 W. Executive Dr., Ste. E-H	Mequon	WI	53092	262-240-4842	D:203.526.6599.
CANADIAN LOCATIONS:							
Barrie #1	Todd Clifford	73 Saunders Road	Barrie	ONT	L4N 9A7	705.727.1100 416.742.3197	T: 778.996.5980
Eastern Toronto	Issam Alkhiami	115 Howden Road	Scarborough	ONT	M1R 3C7	416-712-7171	I: 647.838.7855
Niagara	Yogi & Anjali Tagra	11 Henegan Rd., Unit 1 (PO Box 332)	Virgil	ONT	L0S 1T0	905-468-4611	Y: 416.994.1626 A: 647.869.5080
Vancouver	Carolyn & Kerry Lige	1515 Broadway Street, Unit 700	Port Coquitlam	BC	V3C 6M2	604-475-7200	K: 604.306.8767 C: 604.240.4249

EXHIBIT D

CLOSETS BY DESIGN®

LIST OF FRANCHISEES WHO LEFT THE SYSTEM

EXHIBIT D TO THE FRANCHISE DISCLOSURE DOCUMENT

List of Closets By Design franchisees had a territorial outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business as of December 31, 2022:

Owner	Street Address	City	ST	Zip	Phone
Greg Ostendorf	15800 W. Hardy Road, Ste 580	Houston	TX	77060	281-807-4400

List of Closets By Design franchisees who signed a franchise agreement during the 2022 calendar year, but did not open their franchised outlet as of December 31, 2022:

None.

List of Closets By Design franchisees who has not communicated with us within 10 weeks of this issuance date of this disclosure document:

None.

EXHIBIT E

CLOSETS BY DESIGN®

INDUSTRY SPECIFIC LICENSES REQUIRED

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

The following states may require validly issued state contractor's licenses (Commercial and Residential) to operate a Closets By Design franchise. Please check with the agencies listed below, and consult with your business lawyer, about compliance with licensing obligations in your state.

Alabama

General Contractors Board
2525 Fairlane Drive
Montgomery, Alabama 36116
Phone: (334) 272-5030 and website: www.genconbd.alabama.gov

Alaska

Division of Occupational Licensing
333 W. Willoughby Avenue, 9th Floor
Juneau, Alaska 99801
Phone: (907) 465-2550 and website: www.commerce.alaska.gov/web/cbpl/professionallicensing

Arizona

Registrar of Contractors
1700 W. Washington St., Suite 105
Phoenix, Arizona 85007-2812
Phone: (602) 542-1525 and website: www.roc.az.gov

Arkansas

Contractors Licensing Board
4100 Richards Road
North Little Rock, Arkansas 72117
Phone: (501) 372-4661 and website: www.aclb.arkansas.gov

California

Contractors State License Board
9821 Business Park Drive
Sacramento, California 95827
Phone: (800) 321-CSLB (2752) and website: www.cslb.ca.gov

Colorado

Department of Regulatory Agencies
1560 Broadway, Suite 110
Denver, Colorado 80202
Phone: (303) 894-7855 and website: www.colorado.gov/pacific/dora

Connecticut

Department of Consumer Protection
165 Capitol Avenue
Hartford, Connecticut 06106-1630
Phone: (860) 713-6000 and website: www.ct.gov/dcp

Delaware

Division of Professional Regulation
Cannon Building, Suite 203
861 Silver Lake Blvd.
Dover, Delaware 19904
Phone: (302) 744-4500 and website: www.dpr.delaware.gov

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

District of Columbia

Department of Consumer and Regulatory Affairs
1100 4th Street, SW
Washington, DC 20024
Phone: (202) 442-4400 and website: www.dkra.dc.gov

Florida

Department of Business and Professional Regulation
2601 Blair Stone Road
Tallahassee, FL 32399
Phone: (850) 487-1395 and website: www.myfloridalicense.com/dbpr

Georgia

Secretary of State, Professional Licensing
237 Coliseum Drive
Macon, Georgia 31217-3858
Phone: (478) 207-2440 and website: www.sos.ga.gov/index.php/licensing

Hawaii

Department of Commerce and Consumer Affairs
Professional and Vocational Licensing
King Kalakaua Building
335 Merchant Street
Honolulu, Hawaii 96813
Phone: (808) 586-3000 and website: www.cca.hawaii.gov

Idaho

Bureau of Occupational Licenses, Division of Building Safety
700 West State Street
Boise, Idaho 83702
Phone: (208) 334-3233 and website: www.ibol.idaho.gov/IBOL

Illinois

Department of Financial and Professional Regulation
320 West Washington, 3rd Floor
Springfield, Illinois 62786
Phone: (888) 473-4858 and website: www.idfpr.com

Indiana

Professional Licensing Agency
302 West Washington Street, Room E034
Indianapolis, Indiana 46204-2700
Phone: (317) 232-2980 and website: www.in.gov/pla

Iowa

Professional Licensing Bureau
200 East Grand Avenue, Suite 350
Des Moines, Iowa 50309
Phone: (515) 725-9022 and website: www.plb.iowa.gov

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

Kansas

Business Center
534 S. Kansas Avenue, Ste. 1210
Topeka, Kansas 66603-3434
Phone: (800) 452-6727 and website: www.kansas.gov/business/registering

Kentucky

Public Protection Cabinet, Department of Housing, Buildings and Construction
101 Sea Hero Road, Suite 100
Frankfort, Kentucky 40601
Phone: (502) 573-0365 and website: www.dhbc.ky.gov

Louisiana

State Licensing Board for Contractors
2525 Quail Drive
Baton Rouge, Louisiana 70808
Phone: (225) 765-2301 and website: www.lslbc.louisiana.gov/contractors

Maine

Regulatory Licensing and Permitting
Office of Professional and Occupational Regulation
76 Northern Ave
Gardiner, Maine 04345
Phone: (207) 624-8603 and website: www.maine.gov/portal/business

Maryland

Department of Labor, Licensing and Regulation
500 North Calvert Street
Baltimore, Maryland 21202
Phone: (410) 230-6220 and website: www.dllr.state.md.us/license

Massachusetts

Consumer Affairs and Business Regulation
Ten Park Plaza, Suite 5170
Boston, Massachusetts 02116
Phone: (617) 973-8700 and website: www.mass.gov/ocabr/licensee

Michigan

Department of Licensing and Regulatory Affairs
P.O. Box 30004
Lansing, Michigan 48909
Phone: (517) 373-1820 and website: www.michigan.gov/lara

Minnesota

Department of Commerce
85 7th Place East
Saint Paul, MN 55101
Phone: (651) 539-1600 and website: www.mn.gov/commerce/licensees

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

Mississippi

State Board of Contractors
2679 Crane Ridge Dr., Suite C
Jackson, Mississippi 39216
Phone: (601) 354-6161 and website: www.msdoc.us

Missouri

Division of Professional Registration
3605 Missouri Boulevard
P.O. Box 1335
Jefferson City, Missouri 65102-1335
Phone: (573) 751-0293 and website: www.pr.mo.gov

Montana

Department of Labor and Industry
Business Standards Division
301 South Park
PO Box 200513
Helena, Montana 59620-0513
Phone: (406) 841-2300 and website: www.bsd.dli.mt.gov

Nebraska

Department of Labor
Labor Law - Contractor Registration
550 So. 16th Street, 3rd Floor
Lincoln, Nebraska 68508
Phone: (402) 471-2239 and website: www.dol.nebraska.gov/LaborStandards

Nevada

State Contractors Board – Northern Nevada Office
9670 Gateway Drive, Suite 100
Reno, Nevada 89521
Phone: (775) 688-1141 and website: www.nscb.state.nv.us

New Hampshire

Office of Professional Licensure and Certification
121 South Fruit Street
Concord, New Hampshire 03301
Phone: (603) 271-2152 and website: www.oplc.nh.gov

New Jersey

Department of Community Affairs
PO Box 800
Trenton, NJ 08625-0800
Phone: (609) 292-6420 and website: www.nj.gov/dca

New Mexico

New Mexico Regulation & Licensing Department
Toney Anaya Building, 2550 Cerrillos Road
Santa Fe, New Mexico 87505
Phone: (505) 476-4500 and website: www.rld.state.nm.us

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

New York

Department of State
Division of Licensing Services
One Commerce Plaza, 99 Washington Ave.
Albany, New York 12231-0001
Phone: (518) 474-4429 and website: www.dos.ny.gov/corps

North Carolina

Licensing Board for General Contractors
5400 Creedmoor Road
Raleigh, North Carolina 27612
Phone: (919) 571-4183 and website: www.nclbgc.org

North Dakota

Secretary of State
600 E Boulevard Ave., Dept. 108
Bismarck North Dakota 58505-0500
Phone: (701) 328-2900 and website: www.sos.nd.gov/business/contractors

Ohio

Department of Commerce
Construction Industry Licensing Board
6606 Tussing Road
Reynoldsburg, Ohio 43068
Phone: (614) 644-2223 and website: www.com.ohio.gov/dico/ocilb

Oklahoma

Oklahoma Tax Commission and Professional Licensing
Connors Building, Capitol Complex
2501 North Lincoln Boulevard
Oklahoma City, Oklahoma 73194
Phone: (405) 522-6800 and website: www.ok.gov/tax

Oregon

Oregon Real Estate Agency and Licensing
530 Center St NE, Suite 100
Salem, Oregon 97301
Phone: (503) 378-4170 and website: www.oregon.gov/rea

Pennsylvania

Department of State
Bureau of Professional and Occupational Affairs
Penn Center, 2601 N 3rd Street
Harrisburg, Pennsylvania 17110
Phone: (717) 787-8503 Phone: and website: www.dos.pa.gov/ProfessionalLicensing

Rhode Island

Contractors' Registration and Licensing Board
1 Capitol Hill, 2nd Floor
Providence, Rhode Island 02908
Phone: (401)-222-1268 and website: www.crb.ri.gov

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

South Carolina

Department of Labor, Licensing, and Regulation
Synergy Business Park, Kingstree Building
110 Centerview Dr.
Columbia, South Carolina 29210
Phone: (803) 896-4300 and website: www.llr.state.sc.us

South Dakota

Department of Labor & Regulation
123 W. Missouri Ave.
Pierre, South Dakota 57501-0405
Phone: (605) 773-3101 and website: www.dlr.sd.gov

Tennessee

Department of Commerce and Insurance
Licensing and Regulations
500 James Robertson Pkwy
Nashville, Tennessee 37243-0565
Phone: (615) 741-2241 and website: www.tn.gov/commerce

Texas

Department of Licensing and Regulations
920 Colorado
Austin, Texas 78701
Phone: (512) 463-6599 and website: www.tdlr.texas.gov

Utah

Division of Occupational and Professional Licensing
P.O. Box 146741
Salt Lake City, Utah 84114-6741
Phone: (801) 530-6628 and website: www.dopl.utah.gov

Vermont

Secretary of State, Office of Professional Regulation
128 State Street
Montpelier, Vermont 05633-1101
Phone: 802-828-1505 and website: www.sec.state.vt.us

Virginia

Department of Professional and Occupational Regulation
Perimeter Center, Suite 102 (first floor)
9960 Mayland Drive
Richmond Virginia 23233
Phone: (804) 367-8500 and website: www.dpor.virginia.gov

Washington

Business and Professions Division
Department of Licensing
P.O. Box 9034
Olympia, WA 98507-9034
Phone: 800-451-7985 and website: www.bls.dor.wa.gov

INDUSTRY SPECIFIC LICENSES REQUIRED BY STATE

Wisconsin

Department of Safety and Professional Services
1400 East Washington Avenue, Room 112
Madison, Wisconsin 53703
Phone: (608) 266-2112 and website: www.dsps.wi.gov

Wyoming

Department of Administration and Information
Professional Licensing Boards
2001 Capitol Avenue, Room 104
Cheyenne, Wyoming 82002
Phone: (307) 777-3628 and website: <http://ai.wyo.gov/economic-analysis/professional-licensing-board>

EXHIBIT F

CLOSETS BY DESIGN®

**STATE FRANCHISE ADMINISTRATORS AND
AGENTS FOR SERVICE OF PROCESS**

STATE FRANCHISE ADMINISTRATORS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. The following are the state administrators responsible for the review, registration and oversight of franchises in these states:

California:

Commissioner of the Department
of Financial Protection and Innovation
320 West 4th St., Suite 750
Los Angeles, CA 90013-2344
(866) 275-2677

Hawaii:

Commissioner of Securities,
Dept. of Commerce and Consumer
Affairs, Business Registration Div.,
Securities Compliance Branch
335 Merchant St., Rm. 203
Honolulu, HI 96813-2921
(808) 586-2722

Illinois:

Office of the Attorney General
Franchise Division
500 S. 2nd St.
Springfield, IL 62701-1771
(217) 782-4465

Indiana:

Indiana Securities Division
Franchise Section
302 W. Washington St., Rm. E111
Indianapolis, IN 46204-2738
(317) 232-6681

Maryland:

Office of the Attorney General
Division of Securities
200 Saint Paul Pl.
Baltimore, MD 21202-2020
(410) 576-6360

Michigan:

Michigan Attorney General
Consumer Protection Division
PO Box 30213
Lansing, MI 48909-7713
(517) 373-7117

Minnesota:

Commissioner of Commerce
85 7th Pl. E., Ste. 280
Saint Paul, MN 55101-3165
(651) 539-1600

New York:

NYS Department of Law
Investor Protection Bureau
28 Liberty St., 21st Flr.
New York, NY 10005-1495
(212) 416-8236

North Dakota:

Securities Department
600 E. Boulevard Ave., 5th. Flr.
Bismarck, ND 58505-0510
(701) 328-4712

Rhode Island:

Dept. of Business Regulations
Division of Securities
1511 Pontiac Ave., Bldg. 69-1
Cranston, RI 02920-4407
(401) 462-9527

South Dakota:

Division of Insurance
Securities Regulation
124. S. Euclid, Ste. 104
Pierre, SD 57501-3168
(605) 773-3563

Virginia:

State Corporation Commission
Div. of Securities & Retail Franchising
1300 E. Main St., 9th Flr.
Richmond, VA 23219-3630
(804) 371-9051

Washington:

Dept. of Financial Institutions
Securities Division
PO Box 9033
Olympia, WA 98507-9033
(360) 902-8760

Wisconsin:

Securities Division
201 W. Washington Ave., Ste. 300
Madison, WI 53703-2640
(608) 266-8557

AGENTS FOR SERVICE OF PROCESS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. If we register the franchise (or otherwise comply with the franchise investment laws) in any of these states, we will designate the following state offices or officials as our agents for service of process in those states:

California:

California Commissioner of the
Department of Financial Protection and Innovation
320 West 4th St., Suite 750
Los Angeles, CA 90013-2344
(866) 275-2677

Hawaii:

Hawaii Commissioner of Securities,
Dept. of Commerce and Consumer
Affairs, Business Registration Div.
335 Merchant St., Rm. 205
Honolulu, HI 96813
(808) 586-2744

Illinois:

Illinois Attorney General
500 S. 2nd St.
Springfield, IL 62701
(217) 782-4465

Indiana:

Indiana Secretary of State
200 W. Washington St., Rm. 201
Indianapolis, IN 46204
(317) 232-6681

Maryland:

Maryland Securities Commissioner
200 Saint Paul Pl.
Baltimore, MD 21202
(410) 576-6360

Michigan:

Michigan Corporation & Securities Bureau
Department of Commerce
6546 Mercantile Way
Lansing, MI 48911
(517) 373-7117

Minnesota:

Minnesota Commissioner of Commerce
85 7th Pl. E., Ste. 280
Saint Paul, MN 55101
(651) 539-1600

New York:

New York Secretary of State
One Commerce Plaza
99 Washington Ave., 6th Flr.
Albany, NY 12231-0001
(518) 473-2492

North Dakota:

North Dakota Securities Commissioner
600 E. Boulevard Ave., 5th. Flr.
Bismarck, ND 58505
(701) 328-4712

Rhode Island:

Director, Rhode Island Department of
Business Regulations
1511 Pontiac Ave., Bldg. 69-1
Cranston, RI 02920
(401) 462-9527

South Dakota:

Division of Insurance
Securities Regulation
124. S. Euclid, Ste. 104
Pierre, SD 57501-3168
(605) 773-3563

Virginia:

Clerk, Virginia State Corporation Commission
1300 E. Main St., 1st Flr.
Richmond, VA 23219
(804) 371-9733

Washington:

Dept. of Financial Institutions
Securities Division
150 Israel Rd SW
Tumwater, WA 98501
(360) 902-8760

Wisconsin:

Administrator, Wisconsin
Division of Securities
201 W. Washington Ave.
Madison, WI 53703
(608) 261-9555

EXHIBIT G

CLOSETS BY DESIGN®

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CONFIDENTIAL OPERATIONS MANUAL TABLE OF CONTENTS

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EXHIBIT H

CLOSETS BY DESIGN

ASSET PURCHASE AGREEMENT

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made as of _____, 20____, by and between CBD FRANCHISING, INC., a California corporation ("Buyer"), and _____, a _____ ("Franchisee") and _____ and _____, the owners of the Franchisee ("Owners") (collectively, the "Seller").

R E C I T A L S

A. Seller and Buyer entered into a Franchise Agreement, dated as of _____, 20____, as amended through the date hereof (collectively, the "Franchise Agreement"), with respect to Buyer's grant to Seller of a license to operate a Closets By Design franchise in the State of _____ in the county of _____ (the "Territory" or the "Territories");

B. Pursuant to the Franchise Agreement, Seller manufactures, sells and installs custom closets, custom home/office organizers, garage cabinets and related products (the "Products") and manages showrooms of the Products (the "Business") in the Territory;

C. The Franchise Agreement reserves the right of the Buyer or its affiliates to own and/or operate one or more businesses virtually identical to the Business licensed to Seller within the territory (the "Company"), in which case the Seller can, at its option, cause the Buyer to purchase the Assets (as defined below) of the Business;

D. The Company has or will begin operating in the Territory, and subject to the terms and conditions of the Franchise Agreement, Seller elects to exercise its right to cause the Buyer to purchase the Assets of the Business; and

E. The Seller desires to sell, assign and transfer to Buyer all of the Seller's right, title and interest in and to all of the assets of the Business on the terms and conditions and for the consideration set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, covenants, representations and warranties contained herein, and in reliance thereon, Buyer and the Seller (collectively, the "Parties") hereby agree as follows:

A G R E E M E N T

NOW, THEREFORE, in consideration of the Recitals and their respective undertakings, representations, warranties, and covenants set forth below, Seller and Buyer agree as follows:

1. Purchase and Sale.

1.1 The Assets. Buyer shall purchase from Seller, and Seller shall sell to Buyer, subject to the terms and conditions of this Agreement: (i) the fixed assets listed on Schedule 1.1 attached hereto and made a part hereof, including, but not limited to, machinery and equipment, rolling stock, office furniture and fixtures, warehouse supplies and office supplies (collectively, the "Fixed Assets"), provided that any such assets that are leased shall be

identified and provided further that Buyer may elect, in its sole discretion, on or before the Closing (as defined below) whether or not to assume such leases; (ii) all of the inventory owned by Seller on the Closing Date, as hereinafter defined (the "Inventory"); (iii) the customer lists and telephone number(s) of Seller; (iv) the accounts receivable; (v) the Business and goodwill of Seller; (vi) distribution contracts, covenants not to compete and other contract rights ("Contracts"), provided that Buyer shall have an opportunity to review such agreements and contracts and elect not to acquire any that are unacceptable to Buyer; (vii) all other intangible assets of Seller used in the Business. Additionally, Seller shall covenant not to compete with Buyer as set forth in Section 11 below. (All intangible property, including those items listed in (v) through (vi) above, shall be referred to herein as "Intangible Property". All tangible and intangible property described in (i) through (vii) shall be referred to herein as the "Assets").

1.2 No Liens. The Assets shall be transferred to Buyer free and clear of all liabilities, liens, mortgages, encumbrances, debts, obligations, and security or other third party interests of whatever nature, except for obligations under any leases or contracts specifically assumed by Buyer and liens created by Buyer.

1.3 Excluded Assets. Except as specifically set forth herein, Buyer shall not purchase any other assets of Seller; nor shall Buyer assume any liabilities of Seller, except as specifically set forth herein.

2. Purchase Price.

2.1 Amount. The purchase price for the Assets is \$_____ (the "Base Purchase Price"), and was calculated based on the formulas and as otherwise set forth in Section 3.06 of the Franchise Agreement, which provisions shall be incorporated by reference herein. Notwithstanding the foregoing, the Based Purchase Price shall be increased or decreased, as applicable, after the Closing Date pursuant to the terms of Section 2.2 herein (the "Purchase Price Adjustment," with such Base Purchase Price, as so finally increased or decreased, the "Purchase Price").

Adjustments. Within two Business Days preceding the Closing Date, Seller shall prepare and deliver to Buyer a balance sheet (the "Preliminary Closing Balance Sheet") reflecting the pro forma financial position of Seller as of the Closing Date and a preliminary statement (the "Preliminary Working Capital Statement") setting forth Seller's computation of the Working Capital (as defined below) as of the Closing Date, each of which shall be prepared in accordance with GAAP (except as otherwise provided in Exhibit "A" attached hereto). The Preliminary Working Capital Statement shall be prepared in accordance with the procedures set forth on Exhibit "A" attached hereto and shall otherwise be consistent with the Preliminary Closing Balance Sheet. The amount of Credited Inventory and Work in Process (both as defined below) in the Preliminary Working Capital Statement shall be based upon a good faith estimate of Seller and Buyer as to the amounts thereof as of the Closing Date. Seller shall provide Buyer, its advisors and its accountants with timely access to the books, records and other information and documents of Seller reasonably requested in connection with this Section 2. If the amount of Credited Inventory and Work in Progress in the Preliminary Working Capital Statement exceeds the amount thereof reflected on the Preliminary Closing Balance Sheet, then the Purchase Price shall be adjusted upwards to reflect the difference. If the amount of Credited Inventory and Work in Progress in the Preliminary Working Capital Statement is an amount less than the amount thereof reflected on the Preliminary Closing Balance Sheet, then the Purchase Price shall be adjusted downwards to reflect the difference.

For the purposes of this Section 2.2, all capitalized terms used herein shall have the meanings set forth in Section 3.06 of the Franchise Agreement, and are hereby incorporated by reference herein.

2.2 Payment.

(a) If the Purchase Price is an amount less than or equal to \$400,000, then 85% of such Purchase Price shall be paid to you in cash at closing and the balance (the "escrow amount") shall be placed in escrow, with an escrow agent of our choosing, with 50% of such escrow amount to be paid to you 90 days after closing and the other 50% of the escrow amount paid to you 180 days after closing.

(b) If the Purchase Price exceeds \$400,000, then at Buyer's sole option the Purchase Price will either be payable in full in cash on the Closing Date (subject to the escrow requirement addressed immediately hereafter) or no less than 70% of the Purchase Price will be paid in cash on the Closing Date (again, subject to the escrow requirement addressed immediately hereafter) and the balance of up to 30% of the Purchase Price will be payable on a monthly basis over a period of not more than two years pursuant to a subordinated promissory note in form acceptable to the Company and the banks or other financial institutions providing finances to the Company ("Banks"). Interest on the principal amount outstanding under such promissory note will accrue at the London InterBank Offered Rate ("LIBOR") plus 3% and will compound annually. All of the cash payments identified in this paragraph shall be subject to a 15% escrow requirement, pursuant to which 15% of such cash payment will be deposited in escrow on the Closing Date, with an escrow agent of our choosing, with 50% of such escrowed amount to be released to you 90 days after the Closing Date and the balance of such escrowed amount released to you 180 days after the Closing Date, release of such escrowed funds dependent on the representations and warranties you make in this Agreement being true and correct at all relevant times.

3. Closing.

3.1 Closing Date. The sale referred to in Section 1 shall be consummated (the "Closing") on or before _____, 20__ at the offices of Robins, Kaplan, Miller & Ciresi, LLP, 2049 Century Park E., Ste. 3400, Los Angeles, California, 90067-3208, or at such other date, time and place as the parties shall mutually agree upon, subject to the conditions set forth herein. (Such time and date are herein referred to as the "Closing Date".)

3.2 Sales Tax; Prorations. Any sales, excise or transfer tax due as a result of this transaction shall be paid one-half by Seller and one-half by Buyer. All real or personal property taxes or assessments paid or payable by Seller with respect to the Assets shall be prorated between Buyer and Seller as of midnight on the date immediately preceding the Closing Date. Any amount due from Seller shall be deducted from the Purchase Price, and any amount due from Buyer shall be paid at the Closing together with the Purchase Price.

3.3 Facsimile Transmissions. Any agreements, documents or certificates transmitted by one party to the other party by facsimile shall be deemed to have full force and effect as if the facsimile signatures were originals. This Agreement and any originally-executed documents required for the Closing may be transmitted by facsimile and the party so transmitting shall forward the originals to the other party by overnight courier immediately thereafter. Failure to transmit the original documents as required in this Section 3.3 shall not

invalidate or otherwise affect the delivery of the facsimile documents or result in this Agreement being void.

4. Seller's Representations. The Franchisee and Owners, individually and severally, hereby represent, warrant and covenant to Buyer the following, which representations, warranties and covenants shall be true and correct on the date of this Agreement and on the Closing Date:

4.1 Organization. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of _____. Seller has no facilities, assets or employees in any state other than _____ and is not qualified to do business in any other state. Seller has the requisite power and authority to own or lease its property and to operate and carry on the Business as it is now being conducted. Seller has full corporate power and authority to execute and deliver this Agreement and all documents and instruments specified in it and to perform its obligations under this Agreement and under such instruments and documents. Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended.

4.2 Authorization. The execution, delivery and performance of this Agreement and all other documents and instruments specified herein have been, or prior to the Closing shall be, duly authorized by all necessary corporate action. Neither the execution, delivery or performance of this Agreement by Seller nor the consummation of the transactions contemplated herein will result in a breach or violation of, or default under, or conflict with, Seller's charter documents or bylaws, or any law, rule, regulation, judgment, order, decree, mortgage, agreement, indenture, instrument or arrangement applicable to Seller.

4.3 Binding Obligation. This Agreement and the other instruments and documents specified herein, when executed and delivered by Seller, will constitute legal, valid and binding obligations of Seller in accordance with their respective terms, except to the extent that the enforcement thereof may be limited by bankruptcy, reorganization, insolvency or similar laws of general applicability governing the enforcement of the rights of creditors or by the general principles of equity (regardless of whether considered in a proceeding at law or in equity).

4.4 Title. Seller shall convey to Buyer on the Closing Date good and marketable title to all the Assets free and clear of any and all liens, pledges, encumbrances, security interests and other interests of third parties, except for the interests of any lessors under any personal property leases listed on Schedule 1.1 and being assumed by Buyer.

4.5 No Defaults. Seller is not, and at the Closing shall not be, in default, and Buyer shall not be liable for any of Seller's defaults, under any unfilled sales contracts, sales orders, purchase contracts or purchase orders or any of the Contracts or any personal property leases that Buyer is assuming as referenced in this Agreement. Neither the execution and delivery of this Agreement by Seller, nor the consummation of the transactions contemplated by this Agreement, shall (whether with or without notice or the passage of time or both) (a) violate any provision of the charter documents or bylaws of Seller, (b) violate, conflict with or result in the breach or termination of, or otherwise give any person the right to terminate, or constitute a default under the terms of, any mortgage, bond, indenture or other agreement (written or oral) to which Seller is a party or by which Seller or any property or assets of Seller may be bound or affected, (c) result in the creation of any lien, security interest, charge, encumbrance or other similar right of any person upon the assets or property of Seller pursuant to the terms of any

such mortgage, bond, indenture or other agreement, (d) violate any judgment, order, injunction, award or decree of any court, administrative agency or governmental body against, or binding upon, Seller or upon the assets, property or Business of Seller or (e) constitute a violation by Seller of any applicable law, rule or regulation of any jurisdiction as such law, rule or regulation relates to Seller or to the assets, property or Business of Seller, where the consequences of any such violation of law, rule or regulation would have a material adverse effect on Seller's operations, assets, properties, condition (financial or otherwise), or results taken as a whole.

4.6 Documents. Copies of the purchase orders, sales contracts, personal property leases, Contracts and asset lists and any other documents, agreements or contracts provided to Buyer by Seller are true and correct copies of the originals and accurately reflect the business transactions of Seller.

4.7 No Changes. Between the date of this Agreement and the Closing Date, the Business shall be operated in accordance with this Agreement, and there shall be no material adverse changes therein; provided that, if there is a material adverse change prior to the Closing, Seller shall disclose such change to Buyer in writing and Buyer shall have the right to terminate this Agreement.

4.8 Bankruptcy. Seller has not filed (or had filed against it) any petition in bankruptcy or for protection under any receivership or insolvency laws.

4.9 No Consents. Except for the consent of any lessor under any personal property leases being assumed by Buyer, no consent, release, approval or permission of any kind or nature, whether from public authorities or otherwise, is required in connection with the sale of the Assets under the terms of this Agreement.

4.10 Unfilled Orders. The unfilled purchase contracts and purchase orders (inclusive of "in transit" items of Inventory) are of an ordinary and usual kind entered into in the normal course of Seller's Business, and their aggregate amount shall not exceed as of the Closing Date the sum of \$_____.

4.11 Condition of the Assets. Except as set forth on Schedule 4.11, the Assets are, and as of the Closing shall be, well maintained and in good operating condition. Seller knows of no facts which would prevent Buyer from using the Assets in operations of the same kind of Business in which the Assets have been used prior to the Closing Date.

4.12 Claims; Litigation. No claims, suits, litigation, investigations or other proceedings are pending or, to the best knowledge of Seller, threatened against Seller which could adversely affect any of the Assets, the Business or Seller or the consummation of this transaction or the operation of the Business.

4.13 Collective Bargaining; Labor Disputes. There are no union contracts or collective bargaining agreements in effect with respect to the Business. Seller has no knowledge of any current or threatened labor dispute, strike or work stoppage affecting Seller.

4.14 Employees; Benefit Plans. Seller is not in default under any pension, profit-sharing or other employee benefit plan ("Plans"), and all Plans are fully funded. All Plans, if any, shall be terminated no later than the Closing Date. As a result of entering into this Agreement and closing the transaction contemplated hereby, Buyer shall have no responsibility

or liability of any nature for, to or in connection with any Plan(s) of Seller or any employee of Seller or under such Plans to any person.

4.15 Taxes. Seller has timely filed all federal, state and local tax returns required to be filed by it and has paid all taxes as and when due in connection therewith. Buyer shall have no liability for any taxes payable by Seller with respect to its business or the Assets, including, but not limited to, the Real Property.

4.16 Financial Statements. All financial information pertaining to the Seller and its operations, as maintained and reported on CBD Manager, is true and correct in all material respects. Seller has provided Buyer a copy of its most recent reviewed or compiled financial statements for the Business. Seller has provided Buyer Seller's unaudited financial statements for the months from the date of its audited financial statements to the date of this Agreement. Such financial statements and all other financial information provided to Buyer by Seller have been prepared in accordance with accounting principles consistently applied and fairly present the financial condition of Seller.

4.17 Intangible Property. Schedule 4.17 lists all Intangible Property. Except as set forth on Schedule 4.17, Seller is the sole and exclusive owner or licensee of the Intangible Property listed in Schedule 4.17. To the knowledge of Seller, Seller has not infringed upon or violated the rights of any other person that may have an interest in any of the Intangible Property.

4.18 Compliance. Seller has complied in all material respects with all applicable federal, state and local laws, statutes, ordinances, and regulations and has all licenses, consents, and permits required for the conduct of the Business. Schedule 4.18, which is attached hereto and incorporated by reference, lists all such licenses, consents and permits.

4.19 Accurate Representations. Each representation and warranty made by Seller in connection with this Agreement, including those in this Agreement, the schedules and exhibits, and all other information provided to Buyer by Seller, is true, accurate and complete in all material respects. No representation or warranty made by Seller contains any untrue statement of a material fact or fails to state a material fact necessary in order to make statements contained therein not misleading. Without limiting the generality of the foregoing representations, Seller's officers do not have any knowledge that any supplier, customer, agent or representative intends to terminate or substantially reduce its sales to or its purchases from or its contractual relationships with or its use of services, or that any such termination or reduction will result from or by reason of the transactions contemplated by this Agreement.

5. Representations of Buyer. Buyer hereby represents, warrants and covenants to Seller the following, which representations, warranties and covenants shall be true and correct on the date of this Agreement and on the Closing Date:

5.1 Organization of Buyer. Buyer is a corporation duly organized and validly existing under the laws of the State of California and is in good standing in the State of California. Buyer has full corporate power and authority to execute and deliver this Agreement and all documents and instruments specified in it and to perform its obligations under this Agreement and under such instruments and documents.

5.2 Authorization. The execution, delivery and performance of this Agreement and all other documents and instruments specified herein have been, or prior to the

Closing shall be, duly authorized by all necessary corporate action. Neither the execution, delivery or performance of this Agreement by Buyer, nor the consummation of the transactions contemplated herein will result in a breach or violation of, or default under, or conflict with, Buyer's charter documents, as amended or restated, or bylaws, or any law, rule, regulation, judgment, order, decree, mortgage, agreement, indenture, instrument or arrangement applicable to Buyer.

5.3 Binding Obligation. This Agreement and the other instruments and documents specified herein, when executed and delivered by Buyer, will constitute legal, valid and binding obligations of Buyer in accordance with their respective terms, except to the extent that the enforcement thereof may be limited by bankruptcy, reorganization, insolvency or similar laws of general applicability governing the enforcement of the rights of creditors or by the general principles of equity (regardless of whether considered in a proceeding at law or in equity).

5.4 No Consents. No consent, release, approval or permission of any kind or nature, whether from public authorities or otherwise, is required in connection with the purchase of the Assets under the terms of this Agreement.

5.5 Claims; Litigation. No claims, litigation or other proceedings are pending or, to the best of Buyer's knowledge, threatened against Buyer which could adversely affect the consummation of this transaction.

5.6 Bankruptcy. Buyer has not filed (or had filed against it) any petition in bankruptcy or for protection under any receivership or insolvency laws.

5.7 Accurate Representations. Each representation and warranty made by Buyer in connection with this Agreement, including those in this Agreement, the schedules and exhibits, and all other information provided to Seller by Buyer, is true, accurate and complete in all material respects. No representation or warranty made by Buyer contains any untrue statement or material fact or fails to state a material fact necessary in order to make statements contained therein not misleading.

6. Conduct of Business. Seller covenants with Buyer that from the date hereof until the Closing Date:

6.1 Conduct. Seller shall conduct the Business in its ordinary and usual course, with no material changes in the method of operation, and Seller shall maintain in full force and effect all insurance policies currently covering the Assets and shall maintain the Assets in good operating condition.

6.2 Compliance. Seller shall comply with all laws applicable in connection with its operations or that may be applicable for the valid and effective consummation of the transactions contemplated hereby.

6.3 Risk of Loss. The risk of loss or damage to the Assets to be sold under this Agreement shall, prior to the Closing Date, be borne by Seller. Any such loss or damage shall result in an adjustment to the Purchase Price in an amount equal to the cost of any repairs of any damaged item or to the fair market value of any missing item.

6.4 Prohibitions. Seller shall not (i) sell, assign or transfer any of the Assets without the consent of Buyer, other than Inventory sold in the ordinary course of business; (ii) waive any right of Seller of a substantial value; or (iii) change or alter the physical contents or character of the Inventory or adversely change the total dollar valuation of such Inventory at the Closing Date, other than in the ordinary course of business.

6.5 Employees. Seller shall discharge all of its employees no later than the Closing Date in accordance with the Workers Adjustment Retraining and Notification Act of 1988, if applicable, and all other applicable laws and regulations. Seller shall, as of the Closing Date or as soon thereafter as practicable, but in no event later than required by law, discharge all of its obligations to its employees, including, but not limited to, payment of all accrued but unpaid wages, salaries, bonuses, accumulated vacation pay, profit shares, severance pay and other earned benefits, including Multi-Employer Pension obligations and liabilities, and shall pay all withholding or other taxes due thereon. All such obligations shall be discharged by direct payment from Seller to the discharged employee or to the applicable benefit plan or governmental agency, as the case may be. Buyer shall have no obligation to hire, employ or contract with any such person, nor shall Buyer have any obligations or liabilities in connection therewith, but Buyer may in its sole and absolute discretion offer to hire as of the Closing Date certain employees of Seller on terms and conditions to be individually negotiated by and between Buyer and such employees.

7. Access to Assets and Records.

7.1 Access. Seller shall give Buyer and Buyer's counsel, accountants, and other representatives or agents reasonable access during normal business hours from the date hereof until the Closing Date to such of its assets, properties, personnel, books, contracts, commitments and records as relate to the Business or the Assets, including, but not limited to any sales, customer, inventory, credit, personnel and other operational records, the Contracts and any personal property leases, and Buyer or its representatives shall be entitled to copy any such information or documents.

7.2 UCC Report. Seller will obtain or reimburse Buyer for obtaining a report certified by the _____ Secretary of State showing all UCC filings and liens against the Assets at the date of execution hereof.

7.3 Additional Information. Seller shall furnish to Buyer and its representatives all such additional documents and financial and other information concerning the Business and the Assets as Buyer or its representatives may from time to time reasonably require and shall permit Buyer and such representatives to examine all records and working papers relating to the preparation of the financial statements of Seller.

7.4 Inspection Period. Buyer shall have a period of thirty days from the date of this Agreement in which to investigate and inspect the Business, the Assets and the documents provided hereunder. In the event that Buyer determines within such period that the Business or the Assets are not as represented by Seller, Buyer may terminate this Agreement.

7.5 Confidentiality and Standstill.

(a) Standstill. Seller shall not, directly or indirectly, solicit or engage in discussions or negotiations with or provide any information to or otherwise cooperate with any other person seeking to acquire or expressing an interest in acquiring any of the Assets (other

than inventory in the ordinary course of business consistent with past practices) or the Business of Seller or for the purpose of otherwise effecting a transaction inconsistent with the transactions contemplated by this Agreement prior to the Closing Date.

(b) Confidential Information. To the extent not already owned by Buyer pursuant to the Franchise Agreement or the Software License Agreement entered into by and between Buyer and Seller relating to the Franchise Agreement (the "Licensed Information"), the Seller acknowledges that the Seller is selling information to Buyer and have access to certain information owned by Buyer, some of which constitutes trade secrets and proprietary information. Such trade secret and proprietary information relating to the Business includes, without limitation, information related to customers, the identities of existing, past or prospective customers, prices charged or proposed to be charged to customers, the quantity and quality of customer mail, customer contacts, special customer requirements and all related information, marketing techniques, compilations of information, copyrightable material, technical information, financial information, budgets and projections, information about key personnel, past, present or future actual or threatened litigation, information regarding operations and operational expansion plans, know-how, technical data, licensing arrangements, business relationships, marketing data developmental work and other business information about the Business that is a valuable, special and unique asset of the Business (collectively, other than the Licensed Information, the "Confidential Information"). The Seller shall not, directly or indirectly, disclose to any Person (other than their respective attorneys, auditors, existing members, officers, employees, advisors and representatives on a need to know basis and provided that such Persons agree to be bound by the Seller's obligations hereunder) or use for their own benefit any of the Licensed Information, Confidential Information or any information relating to the terms and conditions of the purchase and sale of the Business hereunder. The Seller further agrees that it shall not induce or attempt to induce any employee of Seller to use or disclose the Licensed Information or Confidential Information for any purpose.

(c) Confidentiality. From the date hereof and continuing until one year after the Closing Date or earlier termination of this Agreement, Seller and Buyer and their representatives, agents and employees will continue to hold in strict confidence any documents, data or information obtained from any other party. If the transactions provided for herein are not consummated for any reason, the party receiving such documents, data or information shall return it upon request to the person providing it (other than one copy which counsel to such party shall continue to hold in strict confidence and which shall not be available for use for competitive purposes, but shall be held only in the event of litigation between the parties), shall continue to hold in strict confidence all data and information and shall not use any such documents, data or information except as contemplated by this Agreement. This obligation and covenant shall survive the termination of this Agreement for a period of one year.

(d) Equitable Remedies. The parties acknowledge and agree that the remedy at law for any breach of this Section 7.5 will be inadequate and that the non-breaching party shall be entitled, in addition to any remedy at law, to injunctive or other equitable relief.

8. Consents. Prior to the Closing Date, Seller shall use commercially reasonable efforts to obtain all written consents or demand letters of lenders required to consummate the transactions contemplated hereby and shall deliver to Buyer copies, reasonably satisfactory in form and substance to counsel for Buyer, of such written consents or demand letters, including, but not limited to, the consent of any lessors of personal property leases to be assumed by Buyer.

9. Conditions Precedent to Buyer's Obligations. All of the obligations of Buyer under this Agreement are subject to the satisfaction of each of the following conditions on or before the Closing:

9.1 Accuracy of Representations and Warranties. The representations and warranties of Seller contained in this Agreement or in any schedule or exhibit hereto shall be true and accurate in all material respects on and as of the Closing Date, with the same force and effect as if made on the Closing Date, except as affected by transactions contemplated or permitted hereby, and an officer of Seller shall so certify at the Closing.

9.2 Performance of Covenants. Seller shall have performed and complied in all material respects with all covenants, obligations and agreements to be performed or complied with by Seller on or before the Closing Date pursuant to this Agreement or any schedule or exhibit hereto, including, but not limited to, the transfer of the Assets to Buyer in the manner set forth herein, and an officer of Seller shall so certify at the Closing.

9.3 Lien Search. Seller shall have provided to Buyer one or more reports certified by the _____ Secretary of State, the _____ taxing authorities, or other appropriate governmental agencies listing all liens, encumbrances or security or other third party interests in any of the Assets.

9.4 Approval of Agencies. All governmental approvals necessary for the consummation of the transactions contemplated herein shall have been obtained.

9.5 Consents. Buyer shall have received all required consents or approvals for the sale, assignment and transfer of the Assets in a form satisfactory to Buyer and its counsel, including, but not limited to, the consent of any lessors of any personal property. Seller's [Board of Directors and shareholders or [amend to reflect organizational structure of Seller] and Buyer's Board of Directors shall have approved this Agreement and the transactions contemplated hereby.

9.6 No Material Adverse Change. There shall have been no material adverse change in the Assets prior to the Closing Date, and Buyer shall have inspected and approved the condition and quantity of the Assets. It shall be deemed to be a material adverse change if any of the Fixed Assets is damaged or destroyed and the cost of repairing or restoring such damaged or destroyed item shall exceed \$10,000. In such an event, Buyer shall have the right to reduce the Purchase Price by the market value of the Assets that were damaged or destroyed according to the values listed on Schedule 1.1, or may terminate this Agreement as a result of such material adverse change.

9.7 Real Property Leases. Buyer shall have received satisfactory evidence that all (a) real property leases of Seller shall terminate as of the Closing Date, all early-termination fees related thereto shall have been paid by Seller and no further obligations are owed to the landlord(s) or lessor(s) thereunder; or (b) Seller shall have executed and delivered to Buyer an Assignment and Assumption Agreement in form acceptable to Buyer (the "Assignment and Assumption Agreement") with respect to each such real property lease, and such landlord(s) or lessor(s) have executed and delivered consents to assignment of such leases to Buyer and estoppel certificates in form acceptable to Buyer. Seller shall pay all costs imposed by landlord(s) or lessor(s) under such real property leases as a condition to the assignment thereof by Seller to Buyer.

9.8 Preliminary Closing Balance Sheet. Seller shall have delivered the Preliminary Closing Balance Sheet and Preliminary Working Capital Statement to Buyer each in a form and substance reasonably acceptable to Buyer.

9.9 Delivery of Documents. Seller shall provide, on or before the Closing, all funds and documents required to consummate the transactions contemplated by this Agreement, including but not limited to:

(a) One or more bills of sale, in form to Buyer's reasonable satisfaction, transferring all the Assets, except as provided below;

(b) An Affidavit of Seller, in form reasonably acceptable to Buyer and the Title Company, confirming that there are no rights or claims of parties in possession of the Real Property claiming by, through or under Seller and that there are no liens or rights to a lien for services, labor or materials furnished for or at the instance of Seller;

(c) Such affidavits or certificates as shall be required to establish that the transaction contemplated in this Agreement is not subject to the provisions of the Foreign Investment Real Property Tax Act of 1980, as amended, or any regulations promulgated thereunder. The withholding requirements of Section 1445(a) of the Internal Revenue Code of 1986, as amended, or any withholding requirements of the State of _____;

(d) Assignments, in form to Buyer's reasonable satisfaction, covering any personal property leases being assumed by Buyer, any Contracts and Seller's unfilled sales contracts, sales orders, purchase contracts and purchase orders; provided that such contracts and orders were taken or made in the ordinary course of business.

(e) Termination statements, in form to Buyer's reasonable satisfaction, duly endorsed by all secured parties who have security interests in any of the Assets;

(f) Certified copies of resolutions of the Board of Directors and shareholders of Seller, in form to Buyer's reasonable satisfaction, authorizing the execution and delivery of this Agreement and the consummation of the purchase and sale contemplated hereby [or resolutions of governing body of other form of entity];

(g) Certificates of good standing or status issued by the _____ State Corporation Commission confirming that Seller is in good standing in the State of _____;

(h) Certificates of Incumbency confirming the officers of Seller and their authorized signatures, all in form to Buyer's reasonable satisfaction [change to reflect management of other form of entity];

(i) An opinion of counsel for Seller, dated as of the Closing Date, in a form acceptable to Buyer to the effect that Seller is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and qualified to transact business in any states where the failure to so qualify would have a material adverse effect on Seller; that Seller has full corporate power to execute and deliver this Agreement and all instruments and documents provided for in or contemplated by this Agreement and to perform its obligations under this Agreement and under such instruments and documents; that the actions of Seller have been duly authorized by all necessary corporate action and are, to the

knowledge of such counsel, not in conflict with any provision of the articles of incorporation or bylaws of Seller;

(j) Non-Competition Agreements as required by Section 11;

(k) A copy of a Certificate of Amendment to Seller's Articles of Incorporation amending Seller's name, which shall be filed with the _____ State Corporation Commission no later than ten days following the Closing; and

(l) Such other documents, certificates or instruments as may be required by Buyer or the Title Company, including, but not limited to, a settlement statement.

10. Conditions Precedent to Seller's Obligations. All of the obligations of Seller under this Agreement are subject to the satisfaction of each of the following conditions on or before the Closing:

10.1 Accuracy of Representations and Warranties. The representations and warranties of Buyer contained in this Agreement or in any schedule or exhibit hereto shall be true and accurate in all material respects on and as of the Closing Date, with the same force and effect as if made on the Closing Date, except as affected by transactions contemplated or permitted hereby, and an officer of Buyer shall so certify at the Closing.

10.2 Performance of Covenants. Buyer shall have performed and complied in all material respects with all covenants, obligations and agreements to be performed or complied with by Buyer on or before the Closing Date pursuant to this Agreement or any schedule or exhibit hereto, including, but not limited to, the payment of the Purchase Price to Seller in the manner set forth herein, and an officer of Buyer shall so certify at the Closing.

10.3 Approval of Agencies. All governmental approvals necessary for the consummation of the transactions contemplated herein shall have been obtained.

10.4 Consents. Seller shall have received all required consents or approvals for the sale, assignment and transfer of the Assets, in a form satisfactory to Buyer and its counsel. Seller's Board of Directors and shareholders [or amend to reflect organizational structure of Seller] and Buyer's Board of Directors shall have approved this Agreement and the transactions contemplated hereby.

10.5 Delivery at Closing. Buyer shall provide, on or before the Closing, all funds and documents required to consummate the transactions contemplated by this Agreement, including but not limited to:

(a) The Purchase Price to be paid by Buyer as hereinabove provided;

(b) A certified copy of the resolutions of the Board of Directors of Buyer, in form to Seller's reasonable satisfaction, that the execution of this Agreement and the consummation of the purchase and sale contemplated hereby have been duly authorized;

(c) Certificates of Incumbency confirming the officers of Seller and their authorized signatures, all in form to Buyer's reasonable satisfaction [change to reflect management of other form of entity]; and

(d) Such additional funds as may be required from Buyer for the payment of the charges to be borne by it.

11. Covenant Not To Compete.

11.1 Covenant of Seller. Franchisee and Owners shall have each executed and delivered a Non-competition and Non-solicitation Agreement with the Buyer, in a form reasonably acceptable to Buyer (the "Noncompetition Agreement"), pursuant to which the Franchisee and Owners shall agree, among other things, for a period of three years following the Closing Date not to: (a) engage or in any way become interested, as an individual, partner, shareholder, owner, joint venturer to, officer, director, principal, agent, trustee, employee, independent contractor, consultant, advisor, franchisor or otherwise, in the design, manufacturing, installation, sales or distribution of custom organization and storage systems, including closet systems, garage systems, home office and entertainment systems, wall units, pantry units, custom kitchen cabinets or re-facing, custom bathroom cabinets or re-facing, laundry area systems, and/or components thereof (the "Closet Business"), in the Territories (as defined in the Franchise Agreement) or in any city, town, county, parish or other municipality in the states where the Territories are located, or any other place in the world where Buyer, or its subsidiaries, affiliates, successors or assigns, are engaged in the Closet Business or where Buyer or any subsidiary or affiliate thereof operated during the twelve-month period prior to the Closing Date; (b) solicit, induce, or attempt to solicit or induce, any officer, director, employee, agent, independent contractor or consultant of the Business or of Buyer or any of its subsidiaries, affiliates, successors or assigns to terminate his, her or its employment or other relationship with Buyer or its subsidiaries, affiliates, successors or assigns for the purpose of associating with any competitor of the Business, of Buyer or its subsidiaries, affiliates, successors or assigns, or otherwise encourage any such person or entity to leave or sever his, her or its employment or other relationship with the Business, Buyer or its subsidiaries, affiliates, successors or assigns for any other reason; (c) solicit, induce, or attempt to solicit or induce, any customers, clients, vendors, suppliers or consultants, to terminate or change his, her or its relationship with the Business, Buyer or its subsidiaries, affiliates, successors or assigns, for the purpose of associating with any competitor of the Business, Buyer or its subsidiaries, affiliates, successors or assigns, or otherwise encourage such customers, clients, vendors, suppliers or consultants of the Business or Buyer or its subsidiaries, affiliates, successors or assigns, to terminate or change his, her or its relationship with the Business, Buyer or its subsidiaries, affiliates, successors or assigns for any reason; and (d) solicit, induce or attempt to solicit or induce, any prospective acquisition candidates or customers, clients, vendors, suppliers or consultants, for Franchisee or Owners own behalf or on behalf of any competitor of the Business, Buyer or any of its affiliates or subsidiaries, which candidate, customer, client, vendor, supplier or consultant was called upon by the Business, Seller, Buyer, its subsidiaries or any representative or agent of either thereof or for which the Business or Buyer, its subsidiaries or any representative or agent of either thereof made an analysis thereof, for the purpose of acquiring such person or for the purpose of attempting to obtain such person as a candidate, customer, client, vendor, supplier or consultant.

11.2 Public Policy and Law. The parties to this Agreement expressly agree that it is not their intention to violate any public policy or statutory or common law. The parties intend that the covenant set forth above and those contained in the Non-Competition Agreements from the Franchisee and Owners shall be construed as a series of separate covenants, one for each county or state within the specified geographic area, each of which covenant shall be deemed to be identical. If, in any judicial proceedings, a court shall refuse to enforce any of the separate covenants deemed included in this Section 13 or in the Non-

Competition Agreements, then such unenforceable covenant shall be deemed to be eliminated therefrom or modified to the extent necessary to permit it and the remaining separate covenants to be enforceable. Without limiting the generality of the foregoing, if any court of competent jurisdiction determines that the foregoing covenant not to compete or any Non-Competition Agreement is invalid because of its length of time or geographic scope, then the parties hereto agree that such covenant shall be reduced either or both in length of time or geographic scope to the extent necessary to make such covenant enforceable against Seller or the applicable Shareholder.

11.3 Remedy. The parties acknowledge and agree that the remedy at law for any breach of the foregoing covenant not to compete or of the Non-Competition Agreements will be inadequate and that Buyer shall be entitled, in addition to any remedy at law, to injunctive relief. The consideration for the foregoing covenant not to compete and the Non-Competition Agreements, which are hereby agreed to be a material element of this Agreement, is Buyer's agreement to purchase the Assets and pay the Purchase Price provided herein, as well as the amounts set forth in Section 2.1, and Seller acknowledges and each of the Franchisee and Owners shall acknowledge the adequacy of such consideration.

12. Expenses. Buyer and Seller shall each pay their own expenses incurred in connection with this Agreement and the transactions contemplated herein, whether or not the transactions contemplated herein are consummated. Seller and Buyer shall indemnify each other against any claim of third parties for brokerage commissions, finder's fees or the like in connection with the transactions contemplated herein insofar as such claims are alleged to be based on arrangements or agreements made by the other party.

13. Indemnification.

13.1 Seller's Indemnity. Seller shall indemnify, defend and hold Buyer harmless from and against any and all claims, costs, expenses, liabilities, losses, demands, lawsuits or other proceedings, including reasonable attorneys' fees and court costs, that shall arise with respect to: (i) the operation of the Business prior to the Closing and/or (ii) the breach of or failure of Seller to perform any representation, warranty or covenant contained in this Agreement or in Seller's assignment agreements required hereunder (whether occurring before or after the Closing Date). The Owners shall guarantee Seller's performance of this indemnity.

13.2 Buyer's Indemnity. Buyer shall indemnify, defend and hold Seller harmless from and against any and all claims, costs, expenses, liabilities, losses, demands, lawsuits or other proceedings, including reasonable attorneys' fees and court costs, that shall arise with respect to: (i) the operation of Buyer's business after the Closing; and/or (ii) the breach of or failure by Buyer to perform any representation, warranty or covenant contained in this Agreement or in Buyer's assumption agreements required hereunder (whether occurring before or after the Closing Date).

13.3 Procedures. Buyer and Seller shall promptly notify each other of the existence of any claim, demand, or other matter to which the indemnifying party's obligations under this section would apply and shall give the indemnifying party a reasonable opportunity to defend the same at the indemnifying party's own expense and with counsel of its own selection; provided that the indemnified party shall at all times have the right to fully participate in the defense at its own expense. If the indemnifying party shall, within a reasonable time after this notice, fail to defend, the indemnified party shall have the right, but not the obligation, to undertake the defense of, and to compromise or settle (exercising reasonable business

judgment), the claim or other matter on behalf, for the account, and at the risk of the indemnifying party. If the claim is one that cannot by its nature be defended solely by the indemnifying party (including, without limitation, any federal or state proceeding), then the indemnified party shall make available all information and assistance that the indemnifying party may reasonably request.

13.4 Environmental Indemnity. Without limiting the generality of the foregoing, Seller shall indemnify, defend and hold harmless Buyer and its officers, directors, employees and agents, from and against any and all claims, costs, expenses, liabilities, losses, demands, damages, lawsuits or other obligations or proceedings, including reasonable attorneys' fees and court costs, asserted by any person and relating to or arising from the use, presence, storage, disposal or transportation of, on, under, or across the Real Property of any substance, material or waste that is or becomes designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant" under any federal, state or local law, regulation or ordinance arising from anything occurring prior to the Closing, and regardless of whether Seller was in compliance with the law existing at the time of such use, presence, storage, disposal or transportation.

14. Survival of Representations and Warranties and Related Agreements. Except as otherwise specifically provided, all of the terms, covenants, representations and warranties and agreements contained in or made pursuant to this Agreement shall survive the Closing Date and the due diligence investigation by or on behalf of Buyer prior to the Closing. All statements contained herein or in any certificate, schedule, list or exhibit attached hereto or required to be delivered pursuant hereto shall be deemed representations and warranties within the meaning of this Section 16.

15. Governing Law. This Agreement shall be governed by the laws of the State of California, without regard to conflicts of laws principles.

16. Binding. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective representatives, successors and assigns. This Agreement may be assigned by Buyer without the written consent of Seller to an affiliate of Buyer.

17. Entire Agreement. This Agreement contains the full and complete understanding and the entire agreement of the parties hereto with respect to the acquisition of the Assets and all other transactions contemplated herein, and supersedes all prior agreements or understandings among the parties hereto relating to the subject matter hereof. Notwithstanding the foregoing, to the extent any provision of this agreement conflicts with or is inconsistent with the Franchise Agreement, the provisions of the Franchise Agreement shall control.

18. Amendment. This Agreement may be amended, modified or supplemented only by written instruments signed by both Buyer and Seller.

19. Severable. In the event any one or more of the provisions contained in this Agreement or any application thereof shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement and any other application thereof shall not in any way be affected or impaired thereby.

20. Notices. All notices, requests, demands and other communications under this Agreement to the parties shall be in writing and shall be personally delivered or sent by

commercial courier, facsimile (with the original by mail) or certified or registered mail, postage prepaid, to the following addresses:

Seller: _____

With a copy to: _____

Buyer: CBD FRANCHISING, INC.
13272 GARDEN GROVE BLVD.
GARDEN GROVE, CALIFORNIA 92843
ATTENTION: JERRY EGNER

With a copy to: CHRISTOPHER S. REEDER, ESQ.
CSREEDER, PC
11766 WILSHIRE BOULEVARD, SUITE 1470
LOS ANGELES, CALIFORNIA 90025

Any party may change its address for purposes of this Section 20 by giving the other party notice of the new address in the manner set forth herein. Any notice given as set forth herein shall be deemed to be received on the earlier of actual receipt or four business days after being sent.

21. Attorneys' Fees. In any action or arbitration proceeding involving the interpretation or enforcement of, or defense against, any provision of this Agreement, the prevailing party in such action or proceeding shall be entitled to reasonable attorneys' fees and all costs and expenses incurred in connection with such action or proceeding. In addition, the non-prevailing party shall pay all costs and expenses incurred in enforcing any arbitration award or judgment or in connection with any appeal, and this obligation shall be severable from the other provisions of this paragraph and shall survive any judgment, order or award and shall not be deemed to be merged therewith.

22. Time of Essence. Time is of the essence with respect to this Agreement and the transactions contemplated hereby.

23. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

24. Captions. The captions of the various sections of this Agreement are intended solely for convenience and are not to be used to interpret any of the provisions hereof.

25. Exhibits. All exhibits and schedules attached to this Agreement are incorporated herein by reference.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

“SELLER”

_____,
an _____

By _____
Name _____
Its _____

“BUYER”
CBD FRANCHISING, INC.
a California corporation

By _____
Name _____
Its _____

SCHEDULE 1.1
LIST OF FIXED ASSETS

SCHEDULE 4.11
CONDITION OF ASSETS

SCHEDULE 4.17
LIST OF INTANGIBLE PROPERTY

SCHEDULE 4.18
LIST OF LICENSES, CONSENTS, AND PERMITS

EXHIBIT "A"

ACCOUNTING PROCEDURES

- Credited Inventory and Work in Process shall be equal to the result of a physical inventory to be conducted by Buyer as set forth in the Agreement. Credited Inventory and Work in Process shall be valued as follows: (1) Credited Inventory, including Finished Goods, shall be valued at "Cost", which shall mean Seller's actual cost for purchasing such items, and (2) Work in Process, excluding Finished Goods, shall be valued at thirty-three percent (33%) of the contract value on the Closing Date. Inventory that is not Credited Inventory shall be valued at zero.
- Accounts Receivable shall include only jobs for which installation has been completed and shall be valued according to the following schedule:

<u>Days Outstanding</u>	<u>Percent Credit</u>
0-30	100%
31-60	90%
61-90	80%
90 or more	0%

- No value will be given for any Indebtedness owed to Seller by, or by Seller to, any of its employees, stockholders, officers or directors or the Affiliates of any of them.

EXHIBIT I

CLOSETS BY DESIGN®

PROMISSORY NOTE

PROMISSORY NOTE

Garden Grove, California

[Up to \$40,000.00]

FOR GOOD AND VALUABLE CONSIDERATION, the undersigned ("Borrower") promises to pay to the order of CBD Franchising, Inc. ("CBDF"), at 13272 Garden Grove Blvd., Garden Grove, California 92843, or such other place as Lender may designate, the principal sum of [up to \$40,000.00], with interest on the unpaid principal at an annual percentage rate of 9.5%.

Principal and interest will be paid in lawful money of the United States of America in 12 monthly payments of \$_____, with the first payment commencing on _____, 202__, and continuing on the ___ day of each successive month until _____, 202__, at which date any unpaid balance of principal hereof and all interest accrued hereon will be due and payable. Each payment will be applied first on any interest then due and the remainder on principal.

Upon default in payment of any installment when due, at the option of CBDF or its successor, the whole of the principal sum then remaining unpaid and all interest accrued hereon will become immediately due and payable, without demand or notice. The remedies of CBDF or its successor are not exclusive, and election by CBDF or its successor of any remedy hereunder will not be deemed a waiver of any other remedies that CBDF or its successor may have. If any payment herein provided for is not made at maturity, Borrower further promises to pay all costs of collection and reasonable attorney's fees. Borrower and all endorsers of this Note, and each of them, hereby waive diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and specifically consent to and waive notice of any renewals, extensions, amendments or modifications of this Note whether made to or in favor of Borrower or any other person or persons. Borrower or any endorser expressly waives the claiming of any statute of limitations as a defense to any demand against each and both of them. This Note will be construed and enforced in accordance with the laws of the State of California.

Any notice to Borrower will be sent by overnight courier marked for next business day delivery to:

_____,
or to such other address as Borrower may designate by notice to CBDF or its successor. Any notice to CBDF or its successor will be sent by overnight courier marked for next business day delivery to the address stated in this first paragraph of this Note, or to such other address as may have been designated by notice to Borrower.

Dated: _____, 202__

"BORROWER"

x _____

[TYPED NAME OF BORROWER]

EXHIBIT J

CLOSETS BY DESIGN®

STATEMENT OF FRANCHISEE

STATEMENT OF FRANCHISEE

CBD Franchising, Inc. and you are entering into a Franchise Agreement under the terms of which you will operate a Closets By Design outlet. *This Statement of Franchisee must be completed, signed and dated on the same day you sign your initial Closets By Design Franchise Agreement.*

The following dates are true and correct:

- 1. _____, 20____ _____
 (Date) (Initials) The date on which I received a Franchise Disclosure Document ("FDD") about the Closets By Design franchise.

- 2. _____, 20____ _____
 (Date) (Initials) The date on which I signed the Closets By Design Franchise Agreement.

- 3. _____, 20____ _____
 (Date) (Initials) The earliest date on which I delivered cash, check or other consideration to a Closets By Design franchise sales representative.

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.

I/we certify the above is true and correct to the best of my/our knowledge.

Franchisee

By: _____ Date: _____

By: _____ Date: _____

EXHIBIT K

CLOSETS BY DESIGN®

**MULTI-STATE ADDENDA TO
FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT**

**ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT
FOR HAWAII FRANCHISEES**

1. This proposed registration is exempt from the registration requirements of the states of Connecticut, Florida, Iowa, Kentucky, Maine, Nebraska, North Carolina, Ohio, Oklahoma, South Carolina, Texas and Utah.
2. This proposed registration is or will be shortly on file in the states of States of Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, Rhode Island, Virginia, Washington and Wisconsin.
3. No states have refused, by order or otherwise, to register these franchises.
4. No states have revoked or suspended the right to offer these franchises.
5. The proposed registration of these franchises has not been withdrawn in any state.
6. No statement, questionnaire, or acknowledgement 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.
7. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

**ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT
FOR ILLINOIS FRANCHISEES**

1. Illinois law governs the Franchise Agreement(s).
2. In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
3. Your rights upon Termination and Non-Renewal are set forth in 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 acknowledgement 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.
6. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT FOR INDIANA FRANCHISEES

Notwithstanding anything to the contrary set forth in the Franchise Agreement or Franchise Disclosure Document, the following provisions will supersede and apply:

1. The laws of the State of Indiana supersede any provisions of the Franchise Agreement or California law if such provisions are in conflict with Indiana law. The Franchise Agreement will be governed by Indiana law, rather than California law, as stated in Section 23.06 of the Franchise Agreement ("Governing Law").
2. Venue for litigation will not be limited to California, as specified in Section 23.01 of the Franchise Agreement ("Court Venue").
3. The prohibition by Indiana Code 23-2-2.7-1(7) against unilateral termination of the franchise without good cause or in bad faith, good cause being defined therein as a material breach of the franchise agreement, will supersede the provisions of Article 17 of the Franchise Agreement ("Default and Termination") in the State of Indiana to the extent they may be inconsistent with such prohibition.
4. No release language set forth in the Franchise Agreement will relieve the Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Indiana.
5. Section 13.04 of the Franchise Agreement ("Enforcement of Covenants Not to Compete") will not apply to franchises offered and sold in the State of Indiana.
6. Section 22.05 of the Franchise Agreement ("Our Withholding of Consent – Your Exclusive Remedy ") will not apply to franchises offered and sold in the State of Indiana.
7. Section 12.02 of the Franchise Agreement ("Covenant Not to Compete") is revised to limit the geographical extent of the post-term covenant not to compete to Franchisee's Territory for all franchises sold in the State of Indiana.
8. Section 22.02 of the Franchise Agreement ("Injunction") will not apply to franchises offered and sold in the State of Indiana.
9. Section 23.02 of the Franchise Agreement ("Waiver of Punitive Damages") is deleted from the Franchise Agreement.
10. Notwithstanding the terms of Section 8.10 of the Franchise Agreement ("Indemnification"), Franchisee will not be required to indemnify Franchisor and the other Indemnitees for any liability caused by Franchisee's proper reliance on or use of procedures or materials provided by Franchisor or caused by Franchisor's negligence.
11. No statement, questionnaire, or acknowledgement 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.

12. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**ADDENDUM TO
FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT
FOR MARYLAND FRANCHISEES**

The Maryland Division of Securities requires the following specific disclosures to be made to prospective Maryland franchisees:

1. Item 17h of the Franchise Disclosure Document provide for termination upon bankruptcy. These provisions may not be enforceable under federal bankruptcy law.
2. Regardless of Sections 4.05 and 14.06 of the Franchise Agreement and Item 17m of the Franchise Disclosure Document, the general release required as a condition of renewal, sale, assignment or transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law. You will have the amount of time specified by the Maryland Franchise Registration and Disclosure Law (currently 3 years from the grant of your Franchise) in which to bring an action arising under the Maryland Franchise Registration and Disclosure Law.
3. The Franchise Agreement (Section 23.01) and Item 17v of the Franchise Disclosure Document are amended to state that a franchisee may sue in Maryland for claims arising under the Maryland Franchise Regulation and Disclosure Law.
4. Any claim arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of your Franchise. The Franchise Agreement and Item 17 are so amended.
5. No representation of Franchisee shall act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law, and any applicable sections in the Franchise Agreement are amended accordingly.
6. Notwithstanding Section 5.01 of the Franchise Agreement and Item 5 of the Franchise Disclosure Document, franchisor will defer collecting any initial fees or other initial payments payable to franchisor under the Franchise Agreement until franchisor has fulfilled its pre-opening obligations and franchisee has opened for business.
7. No statement, questionnaire, or acknowledgement 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.
8. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

[Signature page follows.]

Date: _____

Franchisor:
CBD FRANCHISING, INC.

By: _____

Name: _____

Title: _____

Date: _____

Franchisee:

By: _____

Name: _____

Title: _____

**ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT PURSUANT TO
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 franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives 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 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 reasonably opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a Franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the Franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if (i) the term of the franchise is less than 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 of other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 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 or 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 an 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 service.

(j) No statement, questionnaire, or acknowledgement 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.

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 THE OFFICE OF THE ATTORNEY GENERAL, CONSUMER PROTECTION DIVISION, ATTN.: FRANCHISE, 670 LAW BLDG., LANSING, MICHIGAN 48913, (517) 373-7117.

No statement, questionnaire, or acknowledgement 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.

This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

[Signature page follows.]

Date: _____

Franchisor:
CBD FRANCHISING, INC.

By: _____

Name: _____

Title: _____

Date: _____

Franchisee:

By: _____

Name: _____

Title: _____

ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT FOR MINNESOTA FRANCHISEES

Notwithstanding anything to the contrary set forth in the Franchise Agreement, the following provisions will supersede and apply:

1. Regardless of Item 17 and Section 23.01 of the Franchise Agreement ("Court Venue"), Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit Franchisor from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreement can abrogate or reduce any of 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.
2. No release language set forth in the Franchise Agreement or the Franchise Disclosure Document will relieve the Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Minnesota.
3. Minnesota law provides franchisees with certain termination and non-renewal rights. Minnesota Statutes, Section 80C.14, subdivisions 3, 4, and 5 require, except in certain specified cases, that franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement.
4. Franchisor will protect Franchisee's right to use the trademarks, service marks, trade names, logotypes or other commercial symbols and/or indemnify Franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.
5. The fourth sentence of Section 13.04 of the Franchise Agreement ("Enforcement of Covenants Not To Compete") is amended to read as follows: "Accordingly, you consent to the seeking of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete set forth in this Agreement."
6. Any claims arising under Minnesota Statutes, Chapter 80C must be brought within three years after the cause of action accrues.
7. No statement, questionnaire, or acknowledgement 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.
8. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

[Signature page follows.]

Date: _____

Franchisor:
CBD FRANCHISING, INC.

By: _____

Name: _____

Title: _____

Date: _____

Franchisee:

By: _____

Name: _____

Title: _____

ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT

Notwithstanding anything to the contrary set forth in the Franchise Disclosure Document or Franchise Agreement, the following provisions will supersede and apply to all franchises offered and sold under the laws of the State of New York:

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

THE FRANCHISOR REPRESENTS THAT THE PROSPECTUS DOES NOT KNOWINGLY OMIT ANY MATERIAL FACT OR CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT.

ITEM 2. BUSINESS EXPERIENCE

Item 2 of the Disclosure Document lists the directors, principal officers and other executives who will have management responsibility in connection with the operation of the Franchisor's business relating to the franchises offered by this disclosure document, with a statement for each regarding his principal occupations over the past five years.

ITEM 3. LITIGATION

Neither the Franchisor, its affiliates nor any person named in Item 2 above has pending any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) alleging a violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations.

Neither the Franchisor, its affiliates nor any person named in Item 2 above has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten year period immediately preceding the application for registration, has been convicted of a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action by final judgment or been the subject of a material complaint or other legal proceeding, if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations.

Except as disclosed in Item 3 of the FDD, neither the Franchisor, its affiliates, nor any person named in Item 2 above is subject to any currently effective injunctive or restrictive order or decree relating to franchises in general or the franchise offered or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency.

ITEM 4. BANKRUPTCY

Neither the Franchisor nor any predecessor, affiliate, officer or general partner of the Franchisor has, during the ten year period immediately preceding the date of this disclosure document, (a)

filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of the Franchisor held this position in the company or partnership.

ITEM 5. INITIAL FEES

We use the proceeds from Initial Franchise Fees to defray a portion of our expenses in connection with the sale and establishment of franchises, such as: (1) costs related to developing and improving our services; (2) expenses of preparing and registering this disclosure document; (3) legal fees; (4) accounting fees; (5) costs of obtaining and screening franchisees; and, (6) general administrative expenses.

Franchise Agreement

1. The last sentence of the third paragraph of Section 7.01 of the Franchise Agreement (“Confidential Operating Manual”) is amended to read as follows: “The Manual and any additions, deletions, revisions or Supplements to the Manuals are material in that they will affect the operation of the franchised Business, but they will not conflict with or materially alter your rights and obligations under this Agreement or place an excessive economic burden on your operations.”
2. The second sentence of Section 12.04 (“Enforcement of Covenants Not To Compete”) of the Franchise Agreement is amended to read as follows: “Accordingly, you consent to the seeking of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete set forth in this Agreement.”
3. The third and fourth sentences of Section 25.01 of the Franchise Agreement (“Injunction”) is amended to read as follows: “You therefore agree that if you engage in this non-compliance, or unauthorized and/or improper use of the System or Proprietary Marks, during or after the period of this Agreement, we will be entitled to seek both temporary and permanent injunctive relief against you from any court of competent jurisdiction, in addition to all other remedies which we may have at law. You consent to the seeking of these temporary and permanent injunctions.”
4. The following sentence is added at the end of the section entitled “Modification” in Item 17 of the Disclosure Document: “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.”
5. Regardless of Item 17 of the Franchise Disclosure Document or Article 17 of the Franchise Agreement, you may utilize whatever legal rights you may possess to suspend or discontinue operations due to a breach by the Franchisor and you may terminate the Agreement on any grounds available by law.

6. Sections 4.05 (“Conditions to Renewal”), 6.01(B) (“Closets By Design Location”), 14.05(A)(15) (“Assignment By You – Sale to Third Party”) are each amended to include the following language immediately following the requirement that Franchise execute a general release: “Provided, however, that all rights enjoyed by Franchisee and any causes of action arising in its 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 GBL, Section 687.4 and 687.5 be satisfied.”

7. No statement, questionnaire, or acknowledgement 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.

8. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
 CBD FRANCHISING, INC.

Franchisee:

By: _____
 Name: _____
 Title: _____

By: _____
 Name: _____
 Title: _____

**ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE
DOCUMENT FOR NORTH DAKOTA FRANCHISEES**

Notwithstanding anything to the contrary set forth in the Franchise Disclosure Document or the Franchise Agreement, the following provisions shall supersede and apply to all franchises offered and sold in the State of North Dakota:

1. The laws of the State of North Dakota supersede any provisions of the Franchise Agreement or New York law if such provisions are in conflict with North Dakota law. The Franchise Agreement and Area Development Agreement will be governed by North Dakota law, rather than New York law, as stated in Item 17(w) of the Franchise Disclosure Document and Section 23.06 of the Franchise Agreement (“Governing Law”).
2. Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the Franchisee to agree to jurisdiction or venue, in a forum outside of North Dakota, is deleted from Franchise Agreements issued in the State of North Dakota.
3. No release language set forth in the Franchise Agreement shall relieve the Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of North Dakota.
4. Item 17(c) of the Franchise Disclosure Document and Section 4.05 of the Franchise Agreement (“Conditions to Renewal”) each require the execution of a general release upon renewal. This requirement is deleted from all Franchise Disclosure Documents and Franchise Agreements used in the State of North Dakota.
5. Item 17(i) of the Franchise Disclosure Document and Section 18.01 of the Franchise Agreement (“Further Obligations and Rights Following the Termination or Expiration of this Agreement”) may require franchisees to consent to termination or liquidated damages. This requirement is deleted from all Franchise Disclosure Documents and agreements used in the State of North Dakota.
6. Covenants restricting competition in the State of North Dakota, such as those found in Item 17(r) of the Franchise Disclosure Document, Section 13.01 of the Franchise Agreement (“In-Term Covenant Not to Compete”) and Section 13.02 of the Franchise Agreement (“Post-Term Covenant Not to Compete”), may be subject to Section 9-08-06 of the North Dakota Century Code. Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota.
7. Item 17(v) of the Franchise Disclosure Document and Section 23.01 of the Franchise Agreement (“Court Venue”) each require that the franchisee consent to the jurisdiction of courts in California. This requirement is deleted from all Franchise Disclosure Documents and agreements used in the State of North Dakota.
8. Section 23.02 of the Franchise Agreement (“Waiver of Punitive Damages”) requires the franchisee to consent to a waiver of punitive damages. This requirement is deleted from all Franchise Agreements used in the State of North Dakota.

10. No statement, questionnaire, or acknowledgement 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.

11. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT FOR RHODE ISLAND FRANCHISEES

In recognition of the requirements of the State of Rhode Island Franchise Investment Act (the "Act"), §19-28.1 *et seq.*, the Franchise Disclosure Document submitted by CBD Franchising, Inc. for use in the State of Rhode Island is amended as follows:

1. Item 17 u.- Dispute resolution by arbitration or mediation shall comply with §19-28.1-21 of the Act - Private civil actions - and be amended to read:
 - (a.) *A person who violates any provision of this Act is liable to the franchisee for damages, costs, and attorneys and experts fees. In the case of a violation of §§ 19-28.1-5, 19-28.1-8, or 19-28.1-17(1)-(5), the franchisee may also sue for rescission. No person shall be liable under this section if the defendant proves that the plaintiff knew the facts concerning the violation.*
 - (b) *Every person who directly or indirectly controls a person liable under this section, every principal executive officer or director of the liable person, every person occupying a similar status or performing similar functions, and every agent or employee of a liable person, who materially aids in the act or transaction constituting the violation, is also liable jointly and severally with and to the same extent as the person liable under this section, unless the agent, employee, officer, or director proves he or she did not know, and in the exercise of reasonable care could not have known of the existence of the fact by reason of which the liability is alleged to exist.*
2. Item 17 v. - Choice of forum and Item 17 w. - Choice of law shall comply with § 19-28.1-14 of the Act - Jurisdiction and venue - and be amended to read:

A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.
3. Any provision in the Franchise Agreement which designates the governing law as that of any state other than the State of Rhode Island is deleted from Franchise Agreements issued in the State of Rhode Island.
4. Section 19-28.1.-14 of the Rhode Island Franchise Investment Act, as amended by laws of 1993, provides that "a provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."
5. No statement, questionnaire, or acknowledgement 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.
6. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

[Signature page follows.]

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT
FOR VIRGINIA FRANCHISEES**

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document and the Franchise Agreement for use in the Commonwealth of Virginia shall be amended as follows:

1. Additional Disclosure: The following statements are added to Item 17. h

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the franchise agreement do not constitute "reasonable cause" as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

2. No statement, questionnaire, or acknowledgement 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.
3. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals.

Date: _____

Date: _____

Franchisor:
CBD FRANCHISING, INC.

Franchisee:

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

**WASHINGTON ADDENDUM TO THE
FRANCHISE AGREEMENT, FRANCHISE DISCLOSURE DOCUMENT,
STATEMENT OF FRANCHISEE, AND RELATED AGREEMENTS**

The Washington Securities Division requires the following specific disclosures to be made to prospective Washington franchisees:

1. The state of Washington has a statute, RCW 19.100.180 which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.
2. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the franchise agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. The undersigned does hereby acknowledge receipt of this addendum.
7. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.
8. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the

franchise agreement or elsewhere are void and unenforceable in Washington.

9. If any of the provisions in the franchise disclosure document or franchise agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the franchise disclosure document and franchise agreement with regard to any franchise sold in Washington.
10. Regarding Section 8.09 of the Franchise Agreement (“Adequate Reserves and Working Capital”), the Franchisor’s discretion shall be exercised in accordance with the good faith requirement in RCW 19.100.180(1).
11. Section 13.01 (“In-Term Covenant Not to Compete”), Section 13.02 (“Post-Term Covenant Not to Compete”) of the Franchise Agreement, and the Confidentiality/Non-Competition Agreement and Confidentiality Agreement attached to the Franchise Agreement, are each amended to add that non-parties to the Franchise Agreement are only bound to the confidentiality and/or non-competition provisions if they execute such Confidentiality/Non-Competition Agreement themselves.
12. Section 18.02 of the Franchise Agreement (“Option To Purchase Franchised Business’s Assets, Computers and Software”) will be interpreted in accordance with RCW 19.100.180, including that the franchisee’s inventory and supplies shall be purchased by the franchisor for not less than their fair market value offset by any amount owed by the franchisee to the franchisor.
13. Section 23.05 of the Franchise Agreement (“Limitation on Actions”) does not apply to Washington franchisees.
14. No statement, questionnaire, or acknowledgement 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.
15. This Addendum may be executed in counterparts, which together shall constitute one and the same instrument. Signatures via DocuSign, .PDF file, facsimile, or other electronic format have the same force and effect as originals

Date: _____

Date: _____

FRANCHISOR:
CBD FRANCHISING, INC.

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**ADDENDUM TO FRANCHISE AGREEMENT AND FRANCHISE DISCLOSURE DOCUMENT
FOR WISCONSIN FRANCHISEES**

Notwithstanding anything to the contrary set forth in the Franchise Agreement or the Franchise Disclosure Document, the following provisions will supersede and apply:

1. **REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF SECURITIES OF THE STATE OF WISCONSIN.**
2. The Wisconsin Fair Dealership Act, Wisconsin Statutes, Chapter 135 will apply to and govern the provisions of the Franchise Agreement.
3. That Act's requirement, including the requirements that, in certain circumstances, a franchisee receives ninety (90) days' notice of termination, cancellation, non-renewal or substantial change in competitive circumstances, and sixty (60) days to remedy claimed deficiencies, will supersede the requirements of Article 17 of the Franchise Agreement ("Default and Termination") to the extent they may be inconsistent with the Act's requirements.
4. No statement, questionnaire, or acknowledgement 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.
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Date: _____

Date: _____

FRANCHISOR:
CBD FRANCHISING, INC.

FRANCHISEE:

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

EXHIBIT L

CLOSETS BY DESIGN®

STATE EFFECTIVE DATES PAGE

State Effective Dates

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

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

State	Effective
California	Not Effective
Hawaii	Pending
Illinois	Pending
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Pending
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending
Wisconsin	Pending

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

EXHIBIT M

CLOSETS BY DESIGN®

RECEIPTS

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully. If CBD Franchising, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If CBD Franchising, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580.

We have no franchise brokers. The names, address and telephone number of the franchise sellers for this offering are: Jerry Egner and Ron Lichwala, 13272 Garden Grove Boulevard, Garden Grove, California 92843; (714) 890-5860.

Date of Issuance: April 28, 2023.

CBD Franchising, Inc. authorizes the person identified in Exhibit F to receive service of process for it in your state. I received a disclosure document dated April 28, 2023, that included the following Exhibits:

- "A" Franchise Agreement
- "B" Financial Statements
- "C" List of Franchise Outlets
- "D" List of Terminated Franchises
- "E" Industry Specific Licenses Required
- "F" State Franchise Administrators and Agents for Service of Process
- "G" Confidential Operations Manual Table of Contents
- "H" Asset Purchase Agreement
- "I" Promissory Note
- "J" Statement of Franchisee
- "K" Multi-State Addenda to Franchise Agreement and Franchise Disclosure Schedule
- "L" State Effective Dates Page
- "M" Receipts

Dated: _____
(Do not leave blank)

If a corporation or other business entity:

If an individual:

(Name of Business Entity)

(Signature of Prospective Franchisee)

(Signature of Primary Contact Owner)

(Print Name)

(Print Name and Title)

Please date and sign this page, and then keep it for your records

RECEIPT

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- "M" Receipts

Dated: _____
(Do not leave blank)

If a corporation or other business entity:

(Name of Business Entity)

(Signature of Primary Contact Owner)

(Print Name and Title)

If an individual:

(Signature of Prospective Franchisee)

(Print Name)

Please date and sign this page, and then return it to CBD Franchising, Inc., either by email to cbdfanchising@closetsbydesign.com, or by mail to 13272 Garden Grove Boulevard, Garden Grove, California 92843-2205.