

FRANCHISE DISCLOSURE DOCUMENT



Color World New Franchise Systems, LLC
A Delaware Limited Liability Company
7120 Samuel Morse Drive, Suite 300
Columbia, Maryland 21046
(410) 740-1900
www.colorworldhousepainting.com

The franchise described in this disclosure document is for the operation of a Color World Housepainting® business, which provides residential and commercial painting; deck painting, staining, or repair; fence painting or staining; power washing; minor carpentry, cleaning or repair services; drywall repair; gutter installation or removal; and holiday lighting services and products to consumers, as well as other related services.

The total investment necessary to begin operation of a Color World Housepainting franchise is \$103,625 to \$190,325. This includes \$71,500 that must be paid to the franchisor or its affiliates.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact your personal Franchise Development Manager at 7120 Samuel Morse Drive, Suite 300, Columbia, MD 21046 and 410-740-1900.

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

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

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

Issued: January 27, 2022

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibits F and G.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor’s direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit I 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 Color World Housepainting 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 Color World Housepainting franchisee?	Item 20 or Exhibits F and G list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

Some States Require Registration

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

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 us by arbitration and litigation only in the judicial district in which we have our principal place of business at the time the action is commenced, which is currently Columbia, Maryland. Out-of-state arbitration and litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to arbitrate with us or sue us in Maryland than in your own state.
2. **Mandatory Minimum Payments.** You must make minimum royalty or advertising fund payments regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.
3. **Sales Performance Required.** You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” pages for your state in Exhibit K.

TABLE OF CONTENTS

Item	Page
ITEM 1 THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES.....	1
ITEM 2 BUSINESS EXPERIENCE.....	6
ITEM 3 LITIGATION.....	6
ITEM 4 BANKRUPTCY.....	8
ITEM 5 INITIAL FEES.....	8
ITEM 6 OTHER FEES.....	10
ITEM 7 ESTIMATED INITIAL INVESTMENT.....	19
ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.....	19
ITEM 9 FRANCHISEE’S OBLIGATIONS.....	27
ITEM 10 FINANCING.....	28
ITEM 11 FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING.....	30
ITEM 12 TERRITORY.....	39
ITEM 13 TRADEMARKS.....	43
ITEM 14 PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION.....	43
ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS.....	44
ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.....	45
ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION.....	46
ITEM 18 PUBLIC FIGURES.....	52
ITEM 19 FINANCIAL PERFORMANCE REPRESENTATION.....	53
ITEM 20 OUTLETS AND FRANCHISEE INFORMATION.....	67
ITEM 21 FINANCIAL STATEMENTS.....	71
ITEM 22 CONTRACTS.....	71
ITEM 23 RECEIPTS.....	72

EXHIBITS

- A. Franchise Agreement (including Data Sheet, Brand Appendix, Confidentiality and Non-Compete Agreement, Telephone Number and Internet Agreement, and EFT Agreement)
- B. Promissory Note, Guaranty, and Security Agreement
- C. Renewal Addendum
- D. Sample of General Release
- E. Questionnaire
- F. Franchisees as of December 31, 2020
- G. Franchisees That Exited a Franchise in 2020
- H. Operations Manual Table of Contents
- I. Financial Statements
- J. List of State Administrators and Agents for Service of Process
- K. State Addenda/State Franchise Agreement Amendments

ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

This disclosure document describes COLOR WORLD HOUSEPAINTING® franchises. In this disclosure document:

“CWNFS”, “Franchisor,” “we”, “us” and “our” mean Color World New Franchise Systems, LLC, the franchisor.

“You,” “your,” or “Franchisee” refers to the individual or company that enters into a Franchise Agreement with us.

“Owners” means the person(s) identified in the Franchise Agreement as owners of the Franchisee and all other persons whom we may subsequently approve to acquire an interest in the franchise.

The Franchisor

We are a Delaware limited liability company organized on January 4, 2022. We do business under our company name and as COLOR WORLD HOUSEPAINTING®. Our principal place of business is 7120 Samuel Morse Drive, Suite 300, Columbia, MD 21046. To the extent we have appointed agents for service of process in other states, they are listed in Exhibit J.

Our Parents, Predecessors, and Affiliates

On January 10, 2022, we acquired substantially all of the assets of the Color World Housepainting system from our predecessor, Color World Franchise Systems, LLC (“Predecessor”), an Ohio limited liability company formed on January 8, 2016, and its affiliate Color World Housepainting, Inc. (“CWH”), an Ohio corporation formed on February 3, 1998. Predecessor offered Color World Housepainting franchises from March 2016 to January 10, 2022. CWH has never offered franchises in any line of business.

Our direct parent company is Color World Topco LLC (“CWT”), a Delaware limited liability company whose address is the same as ours. CWT’s parent company is Authority Brands, Inc. (“Authority Brands”), a Delaware corporation with the same address as us. Our ultimate parent company is an affiliate of Apax Partners, LLP, a private equity firm based in London, United Kingdom (“Apax”).

We do not operate any Color World Housepainting businesses. However, our affiliate, Color World New Housepainting LLC (“CWNH”), a Delaware limited liability company, operates a “company-owned” Color World Housepainting business in Ohio. CWNH has the same address as us. We refer to the Color World Housepainting businesses operated by our affiliates as “Company-Owned Outlets” for purposes of this Disclosure Document. CWNH also owns the “Color World Housepainting” trademark registrations and licenses them to us (as explained in Item 13 below). CWNH has never offered franchises in any line of business.

Neither we nor our Predecessor has offered franchises in any other line of business. However, as summarized in the table below, we have affiliates that offer franchises in other lines of business. Except as otherwise noted, all listed affiliates have the same address as us:

Affiliate	Franchise offered	Month Affiliate or its Predecessor Began Offering Franchises	Number of Franchises as of December 31, 2020
The Cleaning Authority Franchising SPE LLC Delaware limited liability company	THE CLEANING AUTHORITY Residential cleaning services	September 2010	205
The Cleaning Authority, Inc. New Brunswick, Canada corporation 1 Germain Street, Suite 1700 Saint John NB E2L 4V1 Canada	THE CLEANING AUTHORITY Residential cleaning services	August 2014	7
Homewatch CareGivers Franchising SPE LLC Delaware limited liability company	HOMEWATCH CAREGIVERS Companionship, personal care, complex personal care and nursing services provided by home health aides, personal care providers, certified nurse assistants, licensed practical nurses and registered nurses	January 1996	198
Homewatch Canada, Inc. New Brunswick, Canada corporation Barker House 570 Queen Street, Suite 600 Fredericton NB E3B 6Z6 Canada	HOMEWATCH CAREGIVERS Companionship, personal care, complex personal care and nursing services provided by home health aides, personal care providers, certified nurse assistants, licensed practical nurses and registered nurses	September 2017	2
Homewatch CareGivers International, Inc. Delaware corporation	HOMEWATCH CAREGIVERS Companionship, personal care, complex personal care and nursing services provided by home health aides, personal care providers, certified nurse assistants, licensed practical nurses and registered nurses	September 2017	9

Affiliate	Franchise offered	Month Affiliate or its Predecessor Began Offering Franchises	Number of Franchises as of December 31, 2020
Benjamin Franklin Franchising SPE LLC Delaware limited liability company	BENJAMIN FRANKLIN PLUMBING Plumbing repair and services	September 2001	247
Mister Sparky Franchising SPE LLC Delaware limited liability company	MISTER SPARKY [®] Electric services	June 2006	103
One Hour Air Conditioning Franchising SPE LLC Delaware limited liability company	ONE HOUR AIR CONDITIONING & HEATING and ONE HOUR HEATING & AIR CONDITIONING Residential and light commercial air conditioning and heating services	April 2003	322
ASP Franchising SPE LLC Delaware limited liability company	ASP – AMERICA’S SWIMMING POOL COMPANY Swimming pool cleaning, swimming pool maintenance, swimming pool renovation services, and related services and products	January 2006	112
Mosquito Squad Franchising SPE LLC Delaware limited liability company	MOSQUITO SQUAD Residential and commercial outdoor pest control services and equipment	January 2005	220
DoodyCalls Franchising SPE LLC Delaware limited liability company	DOODYCALLS Exterior pet waste removal service and odor control service	July 2016	36

Affiliate	Franchise offered	Month Affiliate or its Predecessor Began Offering Franchises	Number of Franchises as of December 31, 2020
STOP Franchising SPE LLC Delaware limited liability company	SERVICE TEAM OF PROFESSIONALS (“STOP”) Residential and commercial restoration services, including cleaning, deodorizing and reconstruction of buildings and contents due to fire, smoke, water, mold, normal wear, or other causes of damage, and other related services	April 2017	29
Monster Franchising SPE LLC Delaware limited liability company	MONSTER TREE SERVICE Residential and commercial tree services, including year-round performance of tree removal, pruning, land clearing, stump grinding, plant healthcare and other tree care services	September 2020	176
Woofie’s Pet Ventures, LLC Virginia Limited Liability Company	WOOFIE’S Pet sitting and dog walking services as well as pet grooming services and/or other ancillary services related to pet care	November 2018	3

We also have an affiliate that may offer goods and services to our franchisees. This affiliate is BuyMax SPE, LLC, a Delaware limited liability company (“**BuyMax**”). BuyMax negotiates agreements with manufacturers, distributors, and service providers for franchisees of our affiliates, and may do the same for Company-Owned Outlets and our franchisees. BuyMax also sells products to independent BuyMax® members who are not affiliated with us and may compete with our brand.

Authority Brands guarantees our duties and obligations under the Franchise Agreements that we sign while the guarantee is in place, if we become unable to perform our duties and obligations. See Item 21.

The Color World Housepainting Franchise

Our franchises provide residential and commercial painting; deck painting, staining, or repair; fence painting or staining; power washing; minor carpentry, cleaning or repair services; drywall repair; gutter

installation or removal; and holiday lighting services and products to consumers, as well as other related services (“**Painting Services**”). Each franchise operates under the trademark COLOR WORLD HOUSEPAINTING.

We offer franchises only to persons and business entities that meet our qualifications and are willing to undertake the investment and effort to own and operate a Color World Housepainting business. Our current form of Franchise Agreement appears in Exhibit A to this disclosure document.

The Franchise Agreement authorizes you to use the trademarks, service marks, trade names, logos, and symbols we designate (the “**Licensed Marks**”) to provide Painting Services (the “**Franchised Business**”). The Franchised Business will operate according to the know-how and system of operation we have developed and continue to develop for the Color World Housepainting brand (the “**System**”). The distinctive elements of the System include, but are not limited to: the products and services offered; our customer service standards; our standards and specifications for equipment, technology, supplies, and operations; our advertising and promotional programs and marketing techniques; the exterior and interior design, décor, color scheme, fixtures, and furnishings of the business premises; and the accumulated experience reflected in our training program and instructional materials. We have described our mandatory and recommended standards and procedures in a confidential operations manual (the “**Operations Manual**” or also sometimes referred to as the “**Brand Standards Manual**”) or in other writings designated by us as part of the standards for the System (collectively with the Operations Manual, “**System Standards**”). If you become a franchisee, we will provide you with electronic access to the Operations Manual. We have the right to change the Operations Manual and the System Standards at any time.

Our franchisees operate the Franchised Business from a specific street address or site that we have approved for their business premises (the “**Approved Location**”). However, some of our franchisees have multiple franchises in contiguous or adjoining territories. In those circumstances, we may allow the franchisee to operate their franchises from an Approved Location in only one of the franchised territories.

Industry-Specific Regulations

There are federal, state, and in some cases local regulations pertaining specifically to the painting industry. These pertain to contractor licensing, lead paint removal and disposal, and hazardous waste handling and disposal. State requirements vary widely. Other legal regulations that apply to all businesses generally may include Federal, state, and city, county, parish, borough, municipality or other local laws:

Federal. Examples of federal laws are wage and hour, occupational health and safety, equal employment opportunity, hazardous materials communication to employees, hazardous waste and environmental, and the Americans With Disabilities Act.

State. State laws may cover the same topics as federal laws. Examples of state laws include environmental, occupational health and safety, fire, health, and building and construction laws.

Local. Local laws may cover the same topics as federal and state laws. Examples of local laws include health and sanitation, building codes, fire codes, and waste disposal.

You are responsible for obtaining all licenses and permits which may be required for your business. We strongly recommend that before signing the Franchise Agreement, you engage an attorney and other professional advisors to advise you in determining the laws, ordinances and regulations affecting your establishment or operation of a franchise, to assist you in evaluating the financial ramifications of this business decision, and the risks of this business investment.

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus disease (“COVID-19”) to be a pandemic, and federal, state and local governments subsequently issued emergency declarations restricting the activities of businesses and consumers. Some of the information provided in this FDD is data collected from the period of the COVID-19 pandemic.

General Market for the Services/Competition

The market for Painting Services is well established and very competitive. The Painting Services business operates year-round; however, in some states, exterior painting may be seasonal and reduce substantially during certain times of the year because of poor weather conditions. The primary market for Painting Services consists of both individual homeowners and commercial businesses. Your competitors will be local and national Painting Service companies, as well as individuals who provide Painting Services on a full or part time basis.

ITEM 2 **BUSINESS EXPERIENCE**

Chief Operating Officer, Thomas Hodgson

Mr. Hodgson has served as our Chief Operating Office since January 2022. He was the President and Chief Executive Officer of our Predecessor in Powell, Ohio from January 2016 to January 2022 and was the President and Chief Executive Office of Color World Housepainting, Inc. in Powell, Ohio from 1997 to January 2022.

Vice President, Operations: Jon Boston

Mr. Boston has served as our Vice President, Operations since January 2022. He was the Chief Operating Officer of our Predecessor from May 2019 to January 2022. He served as Operations Manager for our Predecessor from January 2016 to May 2019. He was Operations Manager for Color World Housepainting, Inc. in Powell, Ohio from February 2005 to January 2022.

Director of Franchise Support: Carrie Robinson

Ms. Robinson has served as our Director of Franchise Support since January 2022, and held the same role for our Predecessor from February 2020 to January 2022. From August 2019 until February 2020, she served as an assistant to Mr. Boston. Mrs. Robinson has also worked as an hourly associate for Homegoods in Plain City, Ohio since August 2018. From August 2018 to December 2019, she worked as a hostess at Moretti’s of Arlington in Upper Arlington, Ohio. From April 2019 to June 2019, she worked as a scorer for Data Recognition Corporation in Columbus, Ohio. From September 2017 to June 2018, she worked as a Presidential Intern for Al Akhawayn University in Ifrane, Morocco. From June 2017 to August 2017, she worked as project and facility assistant for Complete Research Connection in Columbus, Ohio. From April 2015 to May 2017, she worked as a post writer for Prindle Institute for Ethics in Greencastle, Indiana. From August 2014 to May 2017, she worked as a student employee for DePauw University Registrar in Greencastle, Indiana.

Chief Executive Officer and Director: Robert Weddle

Mr. Weddle has been the CEO of Authority Brands since August 2014 and our CEO since January 2022. He is also the President and CEO of a number of our other affiliates and their predecessors. Since September 2002, he has been the Vice President and an owner of Longhorn Enterprises, Inc., a The Cleaning

Authority franchise in Newark, Delaware. Since April 2013, he has owned an interest in Dirty Dozen 9, LLC, a The Cleaning Authority franchise in Harrisburg, Pennsylvania.

Chief Financial Officer, Treasurer and Director: Silpa Velaga

Ms. Velaga has been Chief Financial Officer of Authority Brands since May 2019 and its Treasurer since April 2020. She has been our CFO and Treasurer since January 2022. She has held the same positions with a number of our other affiliates and their predecessors. From September 2014 to May 2019, Ms. Velaga was a Director, Deals with PricewaterhouseCoopers in New York, New York.

Chief Development Officer of Authority Brands: Michael Pearce

Mr. Pearce has been Chief Development Officer of Authority Brands since April 2020. He held the same position with a number of our other franchisor affiliates and their predecessors from June 2019 to April 2020. Since June 2020, he has served as the CEO and an owner of Sovereign Water LLC, an ASP – America’s Swimming Pool Company franchise in Memphis, Tennessee. From May 2013 to March 2019, Mr. Pearce was first the Chief Development Officer and then Vice President, Franchise Development of ServiceMaster Franchise Services Group in Memphis, Tennessee, which included ServiceMaster and its affiliates, Merry Maids, AmeriSpec and Furniture Medic.

Vice President of Franchise Development for Authority Brands: David Montanez

Mr. Montanez has been Vice President of Franchise Development of Authority Brands since May 2021. From June 2018 to April 2021, he was Senior Director, Franchise Sales of ServiceMaster Brands in Memphis, Tennessee. From April 2014 to June 2018, Mr. Montanez was the Marketing Expansion Manager for ServiceMaster Clean.

Chief Marketing Officer of Authority Brands: Heather McLeod

Ms. McLeod has been the Chief Marketing Officer of Authority Brands since December 2018. From January 2015 to April 2017, Ms. McLeod was Director of Marketing for our affiliate, The Cleaning Authority, LLC, and was then promoted to Vice President of Marketing and held the position from April 2017 to December 2018.

Vice President of Marketing of Authority Brands: Meg Brodeck

Ms. Brodeck has been the Vice President of Marketing of Authority Brands since November 2021. From January 2020 to November 2021, Ms. Brodeck was the Vice President of Marketing for our affiliate, The Cleaning Authority. From September 2019 to January 2020, she was the Director of Marketing of Authority Brands. From June 2018 to August 2019, she was an Associate with Harris Williams & Co. in Richmond, Virginia. From 2016 to 2018, she was a full-time MBA student at the University of Virginia in Charlottesville, Virginia.

Vice President, General Counsel and Secretary: Brian Balconi

Mr. Balconi has been our Vice President, General Counsel and Secretary since January 2022. Mr. Balconi has been the Chief Legal Officer of Authority Brands since May 2019 and was its General Counsel from November 2018 to May 2019. Mr. Balconi is also the General Counsel, Vice President, Secretary and/or Assistant Secretary of a number of our other affiliates and their predecessors. From August 2018 to September 2018, Mr. Balconi was the General Counsel, Corporate Secretary, and a member of the board of directors of Dessange Group North America in Beverly, Massachusetts. From August 2017 to July 2018,

Mr. Balconi was the President and then also the General Counsel of The Camp Franchise Systems, LLC in Chino Hills, California. From September 2015 to August 2017, he was first a Vice President, then the President of Retail Food Group USA, Inc. (parent company of the Gloria Jean's Coffees and It's A Grind Coffee House chains) and Di Bella Coffee USA in Santa Fe Springs, California.

Chief Operating Officer of Authority Brands: Rohit Chande

Mr. Chande has been Chief Operating Officer of Authority Brands since July 2021. He was Chief Transformation Officer of Authority Brands from July 2019 to July 2021. Since March 2020, he has also served as Director and an owner of Spectra International LLC, d/b/a Homewatch CareGivers of Silver Spring, Maryland. From July 2015 to April 2019, Mr. Chande was the Senior Vice President and board member of Amano McGann, Inc. in Minneapolis, Minnesota.

Executive Vice President of Emerging Brands for Authority Brands: Stewart C. Vernon

Mr. Vernon has been the Executive Vice President of Emerging Brands for Authority Brands since January 2022. Mr. Vernon has also been Chief Executive Officer of our affiliate, ASP Franchising SPE LLC ("ASP"), since May 2021 and was the Founder and Chief Executive Officer of ASP's predecessor, ASP Franchising, LLC, from January 2006 to May 2021.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5
INITIAL FEES

Franchise Fee

The base initial franchise fee ("**Franchise Fee**") is \$49,500, which is for a franchise territory with a population of approximately 100,000 Households. A "**Household**" consists of all the people who occupy a housing unit or other definition used by the U.S. Census Bureau. We may allow you to purchase additional Households in your franchise territory for a cost of \$0.50 per Household ("**Additional Household Fee**"). As described below, we have discount programs for additional territories, military veterans, and minority and women applicants, and we may vary, negotiate, or make an exception to our standard Franchise Fee structure in other circumstances. We began offering franchises in January 2022, and therefore did not collect any initial fees in the last fiscal year.

Except as noted below, discounts or other incentive programs cannot be combined. Additional restrictions may apply. We may discontinue particular discounts or variations at any time without notice.

You must pay the Franchise Fee and any applicable Additional Household Fee in a lump sum when you sign the Franchise Agreement. The Franchise Fee is not refundable under any circumstance.

Additional Territory Discount

You may purchase additional franchise territories at the time of the purchase of your initial territory (up to a total of three territories) by signing an additional Franchise Agreement for each additional territory and paying us the following discounted Franchise Fees:

Additional Territory	Baseline Number of Households	Initial Franchise Fee	Cumulative Franchise Fee
Second	100,000	\$34,650	\$84,150
Third	100,000	\$24,255	\$108,405

Veterans Discount

We are a member of the International Franchise Association (“IFA”) and we participate in the IFA’s VetFran® Program, which provides special financial incentives to qualified veterans. Pursuant to this program, we reduce the Franchise Fee and any applicable Additional Household Fee by 30% for all honorably discharged veterans of American and Canadian armed forces. To qualify for the Veterans Discount, the franchised business must be at least 51% owned by a veteran (i) who is also designated as the Key Person in the Franchise Agreement and (ii) otherwise meets our requirements to purchase a Franchised Business. This discount is for the first franchise only. In determining whether an individual qualifies for the discount, we may be guided by the definitions used by applicable United States or Canadian government offices, but the decision remains ours.

Diversity Discount

We also participate in the IFA’s DiversityFran® Program, which provides special financial incentives to minority communities. Pursuant to this program, we reduce the total of the Franchise Fee by \$5,000 for all minority owned and women-owned businesses. To qualify for the Diversity Discount, the franchised business must be at least 51% owned by a woman or minority (i) who are also designated as the Key Person in the Franchise Agreement and (ii) otherwise meet our requirements to purchase a Franchised Business. This discount is for the first franchise only. In determining whether an individual qualifies for the discount, we may be guided by the definitions used by applicable United States government offices, but the decision remains ours. As of the date of this disclosure document, we have adopted the definition of “minority” to mean Black Americans; Hispanic Americans; Native Americans; Asian Pacific Americans; Subcontinent Asian Americans; and members of other groups designated from time to time by the SBA.

Pre-Opening Purchases

Holiday Lighting Outfitting Fee. In addition to the Franchise Fee and any applicable Additional Household Fee, you must pay us \$15,000 for an initial “Holiday Lighting Outfitting” package of equipment and supplies to provide holiday lighting services to customers (the “**Holiday Lighting Outfitting Fee**”). The Holiday Lighting Outfitting Fee must be paid to us before opening the Franchised Business.

Pre-Opening/Grand Opening Marketing. In addition to the fees listed above, before the Franchised Business opens, you must pay us a non-refundable fee of \$7,000 for pre-opening and grand opening marketing. This amount is the equivalent of two months of the required Local Marketing described in Item 6 below.

**ITEM 6
OTHER FEES**

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
<p>Royalty Fee (2)(3)</p>	<p>You are required to pay us a Royalty Fee in an amount equal to 6% of Gross Revenue (subject to the annual Minimum Royalty Fee adjustment described below).</p> <p><u>Annual Minimum Royalty Fee Adjustment</u></p> <p>You are required to pay us a Minimum Royalty Fee which corresponds to the Minimum Performance Requirements for that Period (see Item 12).</p> <p>At the end of each 12 month period following the Original Opening Date, we will calculate the total Royalty Fees that you paid to us during such period (“Royalties Paid”). If the Royalties Paid are less than the Minimum Royalty Fee for the applicable period, you must immediately pay us the difference between the Royalties Paid and the Minimum Royalty Fees.</p> <p>The “<u>Minimum Royalty Fee</u>” is equal to the minimum amount of Royalty Fees you would be required to pay to us by achieving the applicable Minimum Performance Standards.</p>	<p>Monthly, unless we designate a different period</p>	<p>See Note 2 for the definition of "Gross Revenue."</p> <p>See Note 3 for additional explanation of the Minimum Royalty Fee.</p> <p>See Note 4 for the circumstances under which we may adjust the Royalty Fee.</p> <p>“Original Opening Date” means the date on which you or any prior owner or predecessor operator of the Franchised Business first opened the Franchised Business.</p>
<p>Brand Fund Contribution</p>	<p>Currently, 2% of Gross Revenue</p>	<p>Same as Royalty</p>	<p>The purpose of the Brand Fund is to support general development and recognition of the Color World Housepainting brand.</p> <p>We may specify a different Brand Fund Contribution, not to exceed 3% of Gross Revenue, upon notice to you.</p>
<p>Brand Fund Materials</p>	<p>Our costs</p>	<p>As invoiced</p>	<p>Payable only if we reproduce or customize Brand Fund materials for you.</p>

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
Local Marketing (“LM”) and/or Cooperative	<p>You must pay us \$42,000 per year, paid in equal monthly installments of \$3,500, or as otherwise designated by us.</p> <p>For additional territories that are contiguous, you are required to pay us \$24,000 per year, paid in equal monthly installments of \$2,000, or as otherwise designated by us.</p>	Monthly	<p>Generally, you will pay the funds to us. However, we may require you to pay vendors, media outlets, etc. directly for LM.</p> <p>If you participate in a Cooperative, the amount we require you to spend or contribute to the Cooperative will, at our option, be credited to your LM and/or Brand Fund Contribution obligations.</p>
National Vendor Programs	Your pro rata share based on number of participating franchisees	As incurred	Payable to us or to vendor. See Note 5.
Technology Fees	<p><u>Operating and Production Fee</u></p> <p>Currently, a one-time initial set-up fee of \$500 and then \$1,650 per month.</p>	Monthly. We have the right to designate a different period	<p>You must pay us the identified Operating and Production Fee at our then-current rates for the bundled payments for various required products and services, including without limitation: estimating and customer management software, programs and integrations; call center services to help manage telephone calls and texts with your customers and potential customers; accounting software integration, chart of accounts, and ACH processing; and customer-service production platform and application.</p> <p>Additional products and services are available from our designated and</p>

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
			approved vendors; these products and services are in addition to the above fee and you must pay for the fees and costs related to such additional products and services.
Additional Opening Support Fee	A reasonable fee, plus the reasonable travel, meal, and lodging expenses of our opening support personnel	As invoiced	If you request opening support beyond what we customarily furnish to franchisees, and if we agree to furnish such additional support, then we will have the right to impose a fee, plus expenses, for providing the agreed additional support.
Training Fees – Pre-Opening	None, unless you request and we agree to accept extra trainees. \$300 per day per extra trainee plus our trainers’ reasonable costs and expenses, when applicable	Before training session begins	For all training, including initial training, you are responsible for all travel expenses, living expenses, wages, and other expenses incurred by your trainees. See Item 11 under “Training” for further information about our training program.
Training Fees – Remedial and Optional Training	\$300 per day and you must reimburse us for our reasonable out of pocket costs	Before training session begins	We can charge a training fee: (a) if we require remedial training as a result of your failure to comply with our Brand Standards; (b) for re-training persons who are repeating a training program, or their substitutes; and (c) for training programs that we make optional for franchisees. If we conduct on-site training, you must also pay the

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
			travel, meals and lodging expenses for our trainer(s).
Annual Conference	Currently, up to \$500 per attendee	As invoiced	Applies only if we schedule an annual conference for franchisees. We reserve the right to change our attendance fee.
Non-attendance Fee	\$2,000	As invoiced	If the individuals required to attend our annual conference fail to attend, you must pay our non-attendance fee. If the individuals required to attend our annual conference fail to attend for 2 consecutive years, we may opt to increase your Royalty Fee by 1% of Gross Revenue.
Call Center Fee	Currently covered by the Technology Fee	Monthly. We have the right to designate a different period	<p>All telephone calls to the Franchised Business must be answered by a “live” voice. We have the right to require that you use a designated call center (a “Call Center”) to provide “live” answering services for incoming calls. We can modify the Call Center Fee on 30 days’ notice to you.</p> <p>We may opt to increase your Royalty Fee by 1% of Gross Revenue if you fail to comply with your “live” answering requirement.</p>

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
Service Deficiency Fee	Our costs	As invoiced	Payable if we receive a customer complaint about services you performed and we determine that we must either re-perform the services to the customer's satisfaction or reimburse the customer.
Renewal Fee	The greater of: (a) 10 % of the then-current Franchise Fee; or (b) \$5,000	When you sign successor franchise agreement	When your agreement term ends, you will have the option to continue the franchise relationship with us, subject to certain conditions.
Transfer Fee	<p>Generally, \$10,000.</p> <p>However, if the proposed transferee was referred by a third-party (e.g., a broker) with whom we have a referral arrangement, then you must pay us an additional fee equal to the amount owed under that referral arrangement.</p> <p>If we identify the prospective purchaser, then in addition to the \$10,000 fee, you must pay us the greater of: (a) \$15,000; (b) 3% of the total purchase price; or (c) our actual costs to identify the prospective purchaser.</p>	With request for approval of transfer	Payable if the Franchisee or an Owner proposes to sell the business assets of the Franchised Business or an ownership interest in the Franchisee.
Change of Ownership Fee	Currently, (a) the greater of \$500 or our external legal and administrative costs; plus (b) applicable training fee, currently \$100 per day for each individual we require to attend training.	With request for approval of change of ownership	Payable if the Franchisee or an Owner proposes to modify ownership of the Franchisee in a way that would not result in a change of control of Franchisee. We may modify our change of ownership fee.
Procurement of Insurance	Cost of insurance plus reasonable fee	Upon demand	Payable only if you fail to obtain required insurance and we elect to obtain it on your behalf.

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
Vendor Review	Our reasonable costs	Within 30 days after invoice	Payable only if you ask us to evaluate a potential vendor; payable whether or not we approve the vendor. Please see Item 8.
Management Fee	Commercially reasonable fee	Within 30 days after invoice	Payable only if: (a) the Key Person (see Item 15) dies or is incapacitated and we elect to manage the Franchised Business pending transfer of his or her interest; or (b) the Key Person is arrested for or formally charged with a serious criminal offense and we take over operation of the Franchised Business pending final disposition of the charges.
Step In Fee	Up to \$500 per day, plus our costs and overhead	As invoiced	If you are in default under your Franchise Agreement, we have the right to step in and operate the Franchised Business until we determine the default has been cured. We may charge you a fee for these services.
Interest	12% per annum or the maximum rate permitted by applicable law, whichever is less	With payment of overdue amount	Applies only if you do not pay us on time. We calculate interest from the date the payment was due until paid in full.
Late Fee	\$100 for second occurrence of payment more than 30 days past due; \$200 for third occurrence; \$300 for each subsequent occurrence	With payment of overdue amount	We can charge a late fee to compensate us for our administrative costs incurred in enforcing your obligation to pay us and submit required reports to us.

Type of Fee⁽¹⁾	Amount	Date Due	Remarks
Insufficient Funds Fee	\$50 or the amount the bank charges us due to the insufficient funds, whichever is greater.	Upon demand	Payable if an electronic funds transfer payment request is returned due to insufficient funds.
Indemnity for Tax Withholding	Amount of any penalties, interest, and expenses we incur	As invoiced	Payable only if you are obligated by law to withhold taxes on any payments to us, and you fail to do so.
Audit Costs	Our costs and expenses of conducting audit, including travel and lodging.	Upon demand	Payable only if: (a) you did not submit Gross Revenue statements; (b) you did not keep full books and records; or (c) the total Gross Revenue you reported for any three consecutive months is more than 2% below the audited Gross Revenue.
Non-compliance Fee	1% of Gross Revenue	Same as Royalty	We are entitled to increase your Royalty by 1% of Gross Revenue due to your non-compliance with the Franchise Agreement or the Brand Standards.
Enforcement Costs	Will vary under circumstances	As invoiced	You must reimburse us for expenses we reasonably incur (including reasonable attorneys' fees) to enforce your obligations.
Defense Costs	Our actual costs and expenses	As invoiced	Payable if you initiate a legal proceeding against us and you do not prevail in obtaining the relief you were seeking.

Type of Fee ⁽¹⁾	Amount	Date Due	Remarks
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we incur any damages, losses or expenses, including reasonable attorneys' fees and other costs, as a result of claims arising from the operation of your Franchised Business.
Liquidated Damages	The greater of: (i) two years of Royalty Fees (calculated as your average Royalty Fees per payment period in the year preceding the termination of your Franchise Agreement, multiplied by the number of payment periods occurring in a two-year period); or (ii) \$100,000.	Upon demand	Payable only if we terminate the Franchise Agreement based on your default.
De-identification Fee	Our costs	Upon demand	If you fail to de-identify your Franchised Business following the termination or expiration of the Franchise Agreement, we may do so on your behalf. You are required to reimburse us for any costs we incur.

Explanatory Notes:

- (1) Unless otherwise noted, all fees are non-refundable, payable to us, and uniformly imposed on all franchisees receiving this offering. For all amounts payable to us and our affiliates, you must use the payment method(s) that we designate from time to time. As of the date of this disclosure document, we require payment by Automated Clearing House (ACH) or electronic funds transfer and you must designate an account at a commercial bank of your choice and furnish the bank with authorizations at the time of signing your franchise agreement to permit us to make withdrawals from that account. All fees listed in this chart are applicable to each Territory purchased and the amount of each fee will be due and payable in the manner and at the times described in this table for each Territory independently, and not in the aggregate.

We reserve the right to require you to process some or all payments by your customers through us or through designated service providers and using processes we designate, including automatic payment, credit and debit card payment, electronic funds transfer and other forms of direct or Internet payment. We may require that Royalty Fees, Brand Fund Contributions, product and service purchases and other payments you owe to us be taken out of the automatic payments made by your customers and paid to us, with the balance remitted to you. The companies we designate to process payment arrangements may include companies that are affiliated with us or in which we or our owners otherwise have ownership or control. If we elect, the designated companies may

charge you for the service and will allocate and distribute payments received to you, while delivering to us all related royalty, advertising and other fees as outlined in this Agreement and pursuant to the processes we designate.

- (2) **“Gross Revenue”** means all revenue from the sale of products and services and all other income of every kind related to the Franchised Business, whether for cash, credit, trade, barter or other value and regardless of collection in the case of credit and even if you have contracted with third parties to provide certain of the services, less any bona fide refunds given to customers in the ordinary course of business. Gross Revenue also includes amounts billed to insurance or government programs. Further, Gross Revenue includes all revenue related to the sale of any products and the performance of any services (whether or not the products or services are approved by us) that are provided using any portion of the Franchised Business in any manner, including the Marks (such as service vehicles, invoices, and uniforms bearing the Marks), the System, Confidential Information, any of the employees of the Franchised Business, or the telephone number of the Franchised Business. Gross Revenue also includes any proceeds of business interruption insurance. Your Gross Revenue will not be reduced on account of any fees or commissions you pay to third parties who refer customers.

Gross Revenue does not include any sales taxes or other taxes you collect from customers and pay directly to the appropriate taxing authority. We reserve the right to modify our policies and practices regarding revenue recognition, revenue reporting, and the inclusion or exclusion of certain revenue from Gross Revenue as circumstances, business practices, and technology change.

- (3) The Minimum Royalty Fee is not meant to be, and you may not rely on it as, a representation or guarantee of the results that your Franchised Business or any particular Franchised Business will or might achieve. The Minimum Royalty Fee does not predict or project your revenue or other business results. The Minimum Royalty Fee is simply a fixed dollar value, the purpose of which is to guarantee a minimum economic return to us.
- (4) We reserve the right to increase your Royalty Fee by 1% of Gross Revenue if: (a) the required individuals fail to attend our annual convention for two (2) consecutive years; (b) you do not comply with our requirement to provide “live” answering of telephone calls to the Franchised Business; or (c) you otherwise fail to comply with your obligations under the Franchise Agreement.
- (5) We may contract with national vendors for products and services for our franchisees. If we are required to pay fees to national vendors, you must pay your pro rata share based on the number of franchisees participating in the program. We cannot estimate what the cost to you will be of participation in National Vendor Programs, as it is dependent on the terms of the contracts with national vendors and the number of franchisees participating in any given program.

ITEM 7
ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure (1)	Amount		Method of Payment	When Due	To Whom Payment is to be Made
	Low Estimate	High Estimate			
Initial Franchise Fee(2)	\$49,500	\$49,500	Lump sum or financed.	On signing of Franchise Agreement	Us
Business Outfitting Fee (3)	\$15,000	\$15,000	Lump Sum	On signing of Franchise Agreement	Us
Initial Advertising/ Marketing(4)	\$7,000	\$7,000	Lump Sum	Prior to Opening your Franchised Business and as incurred	Us
Business Licenses and Permits(5)	\$0	\$1,500	As required by federal, state and local governments	Prior to Opening your Franchised Business and as incurred	Federal, state and local government agencies
Office and Computer Equipment; Hardware and Software (6)	\$1,000	\$3,000	As arranged	Prior to Opening your Franchised Business and as incurred	Approved Suppliers
Vehicle/Wraps (6)	\$1,000	\$35,000	As incurred	Prior to Opening your Franchised Business	Suppliers
Inventory/Supplies (6)	\$1,000	\$1,500	As incurred	Prior to Opening your Franchised Business	Us and Approved suppliers
Initial Technology Bundle Expenses (7)	\$5,325	\$7,725	As incurred	As incurred	Us and Approved Vendors
Travel and Living Expenses to Attend Training (8)	\$1,000	\$5,000	As incurred	As incurred	Suppliers
Travel Reimbursement for Onsite Training (9)	\$0	\$3,000	As incurred	Upon demand	Us
Insurances ⁽¹⁰⁾	\$1,800	\$6,600	As arranged	Prior to Opening your Franchised Business	Insurers

Type of Expenditure (1)	Amount		Method of Payment	When Due	To Whom Payment is to be Made
	Low Estimate	High Estimate			
Office Rent and Set-up; Deposits (11)	\$0	\$3,500	As incurred	As incurred	Landlord, Suppliers, Utilities Companies
Miscellaneous Opening Costs (12)	\$1,000	\$2,000	As incurred	As incurred	Suppliers
Additional Funds(13)	\$20,000	\$50,000	As incurred	As incurred	Suppliers, utilities
TOTALS*	\$103,625	\$190,325	*Does not include the cost of purchasing real estate		

Explanatory Notes to Tables:

- (1) This chart estimates the costs you will incur to develop and open a Franchised Business. Our estimates are based on our Predecessor's years of experience in the Painting Services industry and as a franchisor. Your actual costs may vary considerably depending on a variety of factors, including how closely you follow the System, your management skill, experience and business acumen, local economic conditions, the acceptance by local consumers of our approved services, prevailing wage rates, competition, and other considerations. Unless specified otherwise, all amounts paid to us are non-refundable. We make no representation as to whether any of the estimated investment amounts payable to third-parties are refundable. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.
- (2) Calculation of the Franchise Fee is discussed in detail in Item 5. The Franchise Fee shown is for a standard territory with a population of 100,000 Households. We may allow you to purchase additional Households for a cost of \$0.50 per Household. No discount is applied to the estimated Franchise Fee.
- (3) The Outfitting Fees are described in Item 5.
- (4) You will pay us a fee for pre-opening and grand opening marketing; see Item 5.
- (5) This estimate includes the cost of local business permits and licenses. The costs of permits and licenses will vary by location. Some states may require you to obtain or utilize workers or employees that have a contractor's license or to hold additional permits and bonds. If you do not meet your state's experience or other minimum qualifications and requirements, you may need to find alternative solutions, such as hiring licensed contractors while you apply for your contractor's license. In some instances, you may need to engage a qualified individual responsible managing officer or employee that already holds the appropriate licenses, permits and bonds to help you procure the proper contractor licensing. You will likely not incur expenditures related to this item if you are converting your existing painting business to a Color World Housepainting franchise and thus already have the contractor licenses, permits, and bonds required in your local jurisdiction.

- (6) The amounts reflected above are for the required initial equipment and vehicles necessary to operate a single Franchised Business in a single territory. You must obtain the required initial equipment prior to commencing operations which includes a required customized full body vehicle wrap that you are required to buy from us or a designated vendor. The price of the vehicle wrap may vary depending on the size and color of the vehicle. The amount will vary based on what assets you already own (i.e. you may already own a computer, mobile printer, and approved vehicle). You are required to have access to equipment and suppliers necessary to effectively run your franchised business according to our System. Equipment includes cell phone, tablet, computer, and printer and related hardware and software. Supplies and inventory may consist of ink cartridges, files, check stock, production board magnets, and other small office products and supplies. Supplies, equipment, and inventory are required as outlined in the Operations Manual.
- (7) This item includes first 3 months of Technology Fees (including the initial \$500 set up fee) for the various products and services to operate your franchised business. The estimate also includes 3 months of required bookkeeping services (\$375 per month).
- (8) The cost of the Initial Management Training Program for you and one additional person, at your option, is included in the Franchise Fee. The chart estimates the costs for transportation, lodging, and meals for two trainees. These incidental costs are not included in the Franchise Fee.
- (9) This includes travel and living expenses for our representatives to conduct on-site training in your Franchise Territory, at your election. This includes the reasonable travel, airfare, rental car, lodging, and meal expenses we incur to conduct such training.
- (10) Before you open for business, you must purchase and maintain at your sole cost and expense the insurance coverage that we specify. You must comply with all state minimums when obtaining insurance. See Item 8 for more information regarding our insurance requirements.
- (11) We assume and strongly recommend that you will operate the franchised business from your home. The typical franchise will need approximately 300-500 square feet of space, half of which will be used for equipment storage. We recommend that you do not lease or purchase warehouse or office space during or after the initial six to nine month start-up phase. If you choose to lease or purchase warehouse or office space, you are solely responsible for obtaining and paying for the location. If used, you will need a leased location of 300-500 square feet which must be located in your Franchise Territory. The cost of purchasing or leasing warehouse or office varies with the location and size of the premises. The figures in the chart reflect the estimated range for decals and vehicle wraps for your required vehicles.
- (12) This covers miscellaneous opening costs and expenses, including costs for telephones, deposit for credit card machines, deposits for gas, electricity; costs for business licenses in the community; legal and accounting expenses, if incurred.
- (13) The estimate of additional funds for the initial phase of your business includes staff salaries and operating expenses for the first six months. New businesses often generate a negative cash flow initially, so additional funds may be needed to support on-going expenses such as payroll, rent, royalties, Local Marketing Fees, Brand Fund contributions, inventory, utilities, and business licenses, to the extent that aggregate costs are not covered by the revenue you generate. The estimate does not include taxes, financing costs, or any compensation that you may choose to pay yourself.

We relied on our Predecessor's experience in working with Franchised Businesses to compile these estimates. These are only estimates of your initial investment and are based on our estimates of nationwide costs and market conditions prevailing as of the date of this disclosure document. You must bear any deviation or escalation in costs from the estimates that we have given. You should review these figures carefully with a business advisor before making any decision to purchase a Franchised Business. Many factors that are unique to your location can make a dramatic difference in your actual costs.

Except as described in Item 10 for the Franchise Fee, we do not provide financing to franchisees in connection with their initial investment. The availability and terms of financing from third parties will depend on several factors, including the availability of financing generally, your creditworthiness, collateral you may have, and lending policies of financial institutions.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We have the right to require that all equipment, technology, inventory, supplies, vehicles, signs, furnishings, fixtures, décor items, retail merchandise, payment systems, and other products and services that you purchase for use or resale in the Franchised Business: (a) meet specifications that we establish from time to time; and/or (b) be purchased only from vendors that we have expressly approved; and/or (c) be purchased only from a single source (which may include us or our affiliates) at the then-current price. To the extent that we establish specifications, require approval of vendors, or designate specific vendors for particular items, we will notify franchisees via the Operations Manual or otherwise.

We and our affiliates may earn a profit on products and services we sell to you directly, and we and our affiliates may receive rebates, administrative fees, commissions, licensing fees, or other benefits from unaffiliated vendors and distributors with respect to their sales of products or services to you or other Color World Housepainting franchisees, whether or not the product or service is presently mentioned in this Item. Except as limited by applicable law, we and our affiliates have the right to retain any payments received from vendors. We currently receive or intend to receive rebates from our designated bookkeeping service in a fixed dollar amount per month.

We or our affiliates may negotiate purchasing arrangements under which vendors agree to make goods or services available to Franchised Businesses on specific terms. You agree to participate in and abide by the terms of any vendor purchase program we establish. As noted in Item 6, under National Vendor Programs, if we are required to pay a fee to a national vendor, you must pay us or the vendor your pro rata share of the fee.

The following specific restrictions on your purchasing are in effect as of the issuance date of this disclosure document, but we can impose other restrictions at any time:

Items you must purchase from us or affiliates:

Outfitting packages. As described in Item 5, you must purchase the Holiday Lighting Outfitting package from us.

Sales and marketing materials and services. You must also order sales and marketing materials and services from us or our affiliates.

Branded Products. All products that carry the Licensed Marks must be purchased only from us or suppliers approved or designated by us. This includes all stationery, forms, marketing pieces, signage, uniforms, patches, and other private labeled materials.

Customer Relationship Management (CRM) Software. You must use our designated customer relationship management (CRM) software in the operation of your franchised business. The CRM software provides estimating and bidding, scheduling, invoicing and collections, and reporting functions. You must purchase the CRM software from us or our designated supplier.

BuyMax Purchases. BuyMax also sells other miscellaneous non-branded products such as general service and repair items. Although none are required purchases as of the date of this disclosure document, we reserve the right in our sole discretion to require you to purchase branded products, equipment, materials or other items related to the Franchised Business directly from BuyMax or through purchasing programs arranged by BuyMax or any other of our affiliates.

Except for the above items, neither we nor any of our affiliates is an approved vendor of products or services to our franchisees as of the issuance date of this disclosure document. However, we reserve the right to designate ourselves and/or our affiliates as an approved vendor, or as the only approved vendor, for other products and services in the future. If we do not require you to use a designated source or approved vendor for a particular item, you may purchase the item from any source you choose, as long as your purchases conform to the Brand Standards.

Items you must purchase from designated or approved third parties:

Bookkeeping. Currently, you must use QuickBooks online and a designated bookkeeping vendor (currently Out of the Box Technology).

Customer-Service Production Platform. You must use our designated vendor for the customer-service production platform and application.

Paint and Related Application Products. Sherwin Williams is a preferred and approved supplier of paint and related application products to our franchisees and you must purchase all paint products from Sherwin-Williams through the official Color World account. If we have an official Color World account for any approved supplier, we may require you to purchase all products and services from that approved supplier through the official Color World account. We receive rebates from this supplier on all franchisee purchases based on a percentage of sales such suppliers make to our franchisees.

Equipment, Inventory, and Supplies. You must purchase or lease your equipment, inventory, and supplies used in the operation of your Franchised Business from the suppliers and manufacturers that we designate from time to time.

Vehicle Wrapping. As noted in Item 7, you must pay our designated vendor to wrap your vehicle with our proprietary design.

Items that must meet our specifications:

For some products and services, we have not designated a specific source or vendor that you must use, but you must follow our specifications and/or obtain our approval of the vendor. As of the date of this disclosure document, they include:

Vehicles. You must own, lease or buy at least one service vehicle that meets the requirements we specify in the Operations Manual. As discussed above, you will be required to have your vehicle wrapped by our designated vendor to meet our standards.

Computer System. You must lease, purchase or otherwise acquire, from sources of your choice and at your expense, software, hardware and devices (including but not limited to programs, laptop or tablet devices, mobile printers, fax/scanner, and Internet connection) which strictly conform to our specifications and the specifications of the CRM software.

Insurance. You must maintain the types and minimum amounts of insurance coverage and bonds we specify for Franchised Businesses. The policies must be written by carriers with an industry rating acceptable to us; must name us, our affiliates, and their respective officers, directors, shareholders, and employees as additional insureds as we direct; and must not have deductibles, exclusions or co-insurance that are unacceptable to us. Each insurance policy must contain a waiver by the insurance company of subrogation rights against Franchisor, its affiliates, and their successors and assigns. Each insurance policy must contain a waiver by the insurance company of subrogation rights against Franchisor, its affiliates, and their successors and assigns. The table below sets out our required and recommended insurance coverage as of the date of this disclosure document:

<u>Type</u>	<u>Minimum Coverage</u>
Comprehensive general liability, including and products liability, completed operations, property damage, contractual liability, independent contractors liability, owned and non-owned and hired automobile coverage, and personal injury coverage in a form we approve	\$1 million per occurrence, including umbrella coverage
Workers compensation and employer's liability insurance	As required by law in your area.
Business interruption and lost profit insurance	\$10,000 per month with a limit of at least 6 months loss of income
Employment practice liability insurance	\$500,000 per claim and \$1 million in the aggregate, with a maximum policy deductible of \$10,000.
Business automobile liability insurance, including owned, non-owned, leased and hired vehicle coverage	\$1 million combined single limit for death, personal injury and property damage.

Crime Insurance for Employee Dishonesty	\$100,000 combined single limit
---	---------------------------------

We can increase the coverage requirements and/or require different or additional kinds of insurance.

Your insurance policies must be written by a carrier with an industry rating acceptable to us, must name us, Authority Brands, Inc., and their parents, subsidiaries, and affiliates, and their respective officers, directors, members, shareholders and employees as additional insureds, and must not have deductibles, exclusions or co-insurance that are unacceptable to us. All public liability and property damage policies must contain a waiver by the insurance company of subrogation rights against us and our affiliates, successors and assigns.

Prior to opening your Franchised Business, you must provide us with certificates of insurance demonstrating that you have met the requirements. At least 30 days before expiration of a policy, you must furnish evidence of renewal or replacement insurance. If you do not obtain the required coverage, we have the right (but no obligation) to obtain insurance on your behalf. If we do so, you must reimburse us for the cost of insurance, plus a reasonable fee for our services.

Electronic Money Programs and Loyalty Programs. If we set up programs relating to gift cards, gift certificates, stored value cards, online or mobile coupons or credits, online or mobile ordering systems, or other electronic money programs, we will designate the vendors that you must use for these programs. As of the date of this disclosure document, we do not have any such programs,

Vendor Approval Process

If we require you to use an approved vendor for a particular item, but you wish to purchase the item from a source that we have not approved, you may submit a written request for approval of the vendor, unless it is an item for which we have designated a specific vendor. To obtain approval, proposed vendors must demonstrate the ability to meet our standards and must possess adequate quality controls and capacity to supply your needs promptly and reliably. We will provide the relevant standards and specifications to vendors that wish to become approved vendors, provided that the proposed vendor signs a confidentiality agreement; however, we may refuse to disclose product formulations or specifications that we deem to be extremely sensitive. At our request, you must submit samples and other information we require to examine, test and determine whether the proposed vendor meets our specifications and quality standards. We may also require that the proposed vendor allow our representatives to inspect its facilities. We may charge vendors a license fee to use our trademarks or other proprietary property. We may also charge vendors a rebate or other fee for participation in our purchasing program

We have no obligation to approve any specific vendor or any minimum number of vendors for any item, and any proposed vendor relationship must not jeopardize the availability of any special pricing or other benefits offered by existing vendors based on system-wide purchases. We may require you to pay a fee to cover our costs of reviewing a proposed vendor, which you must pay whether or not we approve the vendor. We generally will give you written notice of approval or disapproval of the proposed vendor within 30 days after receiving your request and completion of evaluation and testing, if required. You may not sell or offer for sale any products or services of the proposed vendor until you receive our written approval.

We have the right to revoke approval of particular vendors if we determine that their products or services no longer meet our standards. Upon receipt of written notice of revocation, you must stop buying

from the disapproved vendor. In addition, if we revoke our approval of the products because they fail to meet our standards, you may be required not to use your remaining inventory of those products.

* * *

Your purchases from us or our affiliates will be at the prices and on the terms in effect at the time of your purchase.

We or our affiliate, BuyMax, may negotiate contracts with providers of goods and services for our franchisees and Company-owned Outlets. BuyMax does not negotiate purchase agreements on behalf of individual members. Terms of purchase agreements may vary based on any number of factors and prices may change from time-to-time.

Other than as noted above, we do not currently negotiate purchasing arrangements with vendors on behalf of our franchisees, but we and our affiliates, including without limitation, our affiliate, BuyMax, reserve the right to do so, including pricing terms. Our ability to negotiate and maintain arrangements with vendors may depend on the participation of as many Color World Housepainting franchisees as possible. Accordingly, if we name a specific vendor for a product or service, you must obtain the product or service from that designated vendor. You must comply with the terms and conditions included in the contract with a specific vendor.

As noted above in this Item, vendors may make payments to us or our affiliates based on franchisees' use of the vendors. Vendor payments may include participation fees per franchise, rebates based on actual purchases, marketing contributions for joint promotion of the vendor's products with our brand, and/or sponsorship fees for conferences and other events. We will use any restricted funds in the manner agreed with the vendor. Except as limited by applicable law, we have the right to retain all or a portion of any rebates, commissions, discounts or beneficial pricing that we obtain from vendors. We may use these monies to, among other things, recapture costs related to maintaining the vendor program, negotiating designated vendor arrangements, facilitating orders and making a profit.

For the fiscal year ended December 31, 2020, our Predecessor had revenue of \$167,539 from purchases by Color World Housepainting franchisees, which was 12.9% of our Predecessor's total revenue of \$1,293,088 for the fiscal year.

As of the date of this disclosure document, none of our officers owns an interest in any unaffiliated vendors that sell products or services to our franchisees.

We estimate that your required purchases and leases from us and approved suppliers will be to 50% to 75% of all purchases and leases in establishing the Franchised Business. We estimate that your required purchases and leases from us and approved suppliers will be 80% to 100% of all purchases and leases in operating the Franchised Business, but this amount is subject to change.

There are no purchasing cooperatives or distribution cooperatives in our franchise system as of the date of this disclosure document. We do not provide material benefits to franchisees based on their purchase of particular products or services or use of particular vendors.

ITEM 9
FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Sections 1.2 and 6.25	Items 7, 8, and 11
b. Pre-opening purchases/ leases	Section 1.11, 4, 5.4, and 10.3	Items 5, 7, and 8
c. Site development and other pre-opening requirements	Section 4	Items 5, 7, 8, and 11
d. Initial and ongoing training	Section 5	Items 6, 7 and 11
e. Opening	Sections 4.4, 4.5, 4.6	Item 11
f. Fees	Sections 2.7, 4.1, 4.5, 4.6, 5.4, 5.8, 6.6, 7, 8.5, 8.10, 9.2, 10.3, 10.4, 10.5, 15.2, 15.3, 15.4 15.9, 16.1, 16.7, 16.8, 19.1, Data Sheet (Appendix A), Brand Appendix (Appendix B)	Items 5, 6 and 7
g. Compliance with standards and policies/Operations Manual	Sections 6.1, 12	Items 11 and 14
h. Trademarks and proprietary information	Sections 11, 12, and 13	Items 13 and 14
i. Restrictions on products/ services offered	Sections 6.3 and 6.13	Items 8 and 16
j. Warranty and customer service requirements	Sections 6.1, 6.9, 6.17, 6.18, 6.20, 6.21, and 7.5.	Items 7 and 8
k. Territorial development and sales quotas	Section 6.19	Item 12

Obligation	Section in Agreement	Disclosure Document Item
l. Ongoing product/service purchases	Sections 6.1, 6.9., and 6.10	Items 6, 7 and 8
m. Maintenance, appearance and remodeling requirements	Sections 6.16 and Section 6.24	Items 11 and 17
n. Insurance	Section 9	Items 7 and 8
o. Advertising	Sections 4.3, 7.3, and 10	Items 6 and 11
p. Indemnification	Section 20	Item 6
q. Owner's participation/management/staffing	Sections 1.15, 5.8, 6.2, 6.14, 6.23, 18	Item 15
r. Records and reports	Sections 6.21, 8, 22.1	Item 6
s. Inspections and audits	Sections 6.15, 6.20, 11.3 16.6	Item 6
t. Transfer	Section 15	Item 17
u. Renewal	Section 19	Item 17
v. Post-termination obligations	Section 17	Item 17
w. Non-competition covenants	Section 14	Item 17
x. Dispute resolution	Section 23	Item 17
y. Other – Personal Guarantee	Attached to FA	Item 15

ITEM 10
FINANCING

In our discretion, we may permit you to finance up to 75% of the Franchise Fee and any applicable Additional Household Fee rather than paying the entire amount in a lump sum when you sign the Franchise

Agreement. However, we do not offer financing for any transaction involving brokers or any other third party referral sources.

If financed, the balance of the Franchise Fee and any applicable Additional Household Fee can be paid in up to 36 monthly installments of principal and interest at an interest rate of 12% per annum. You can prepay the balance at any time without penalty.

A franchisee that finances the Franchise Fee and any applicable Additional Household Fee must sign the Promissory Note and Guaranty in Exhibit B to this disclosure document. If the franchisee is a corporation or other business entity, its owners must also sign as guarantors.

To secure payment of the Promissory Note, we require a security interest in the assets of the Franchised Business. You must sign the Security Agreement in Exhibit B, and we may file a UCC financing statement with the appropriate governmental authority to perfect our security interest. You agree to waive demand for payment, presentment for payment, protest, notice of nonpayment or dishonor, and any and all other notices and demands whatsoever.

Under the Franchise Agreement, you must make all payments to us by the payment method(s) we designate from time to time, and this requirement applies to the Promissory Note. We currently require payment by Automated Clearing House (ACH) or electronic funds transfer and you are required to designate an account at a commercial bank of your choice at the time of signing your franchise agreement from which we are able to make withdrawals. You agree to complete and submit to us an authorization for Automated Clearing House or other electronic funds transfer in the form we or your financial institution may require at the time of signing the Promissory Note. You agree to maintain sufficient funds in the account to cover the amounts payable to us. If funds in the Account are insufficient to cover the amounts payable at the time we make our periodic electronic funds transfer, the amount of the shortfall will be deemed overdue. Additionally, if the electronic funds transfer payment request is returned due to insufficient funds, you are required to pay us a fee equal to the greater of: (a) \$50 or (b) the amount the bank charges us due to the insufficient funds.

If you are in default of the Promissory Note or the Franchise Agreement, we can declare the outstanding principal balance of the Promissory Note and all unpaid accrued interest immediately due and payable. If you default, you must pay our reasonable attorney's fees and other legal costs we incur in enforcing payment and collection of the balance due. In addition, under the cross-default provision of the Franchise Agreement, we have the right to treat a default under the Promissory Note and Guaranty or under the Security Agreement as a default under the Franchise Agreement, and we can terminate the Franchise Agreement if you do not cure the default.

We may sell, assign or discount the Promissory Note to a third party. If we sell or assign the Promissory Note, it will not affect our obligation to provide the services to you that are described in the Franchise Agreement, but the third party may be immune under the law to any defenses to payment you may have against us.

Except as described above, we do not offer direct or indirect financing to franchisees. We will not guarantee your promissory note, lease, or other obligation.

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

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

We will provide the services described in this Item 11 through our affiliate, Authority Brands, Inc., and its employees.

Pre-Opening Obligations. Before you open the Franchised Business:

- A. We will provide the Training Program described in this Item to you and your senior management level employees. You must pay for your travel and related expenses. (Franchise Agreement, Section 5.1)
- B. We will provide you with a copy of, or electronic access to, the Operations Manual. (Franchise Agreement, Section 12)
- C. We will set you up with access to the Franchisee Portal, if applicable. We may use the Franchisee Portal for communications, training, or other purposes and may require you to use it for reporting or other purposes. (Franchise Agreement, Section 6.8)
- D. We will help you set up an account with the designated Call Center, if applicable. (Franchise Agreement, Section 6.6)
- E. We will provide you with information on how to acquire the software packages we designate. (Franchise Agreement, Section 6.7)
- F. We will provide you with any specifications that we develop for fixtures, furnishings, equipment, and signage, which may include the names of approved suppliers. However, we do not supply these items directly, nor do we assist with delivery or installation. (Section 6.10)
- G. We will work with you on creating a pre-opening and grand opening marketing plan for the Franchised Business. (Franchise Agreement, Section 10.3)
- H. We will provide opening support and assistance as we deem appropriate, at the time(s) and in the manner we determine. If you request opening support beyond what we customarily furnish to Franchised Businesses, and if we agree to furnish the additional support, then we will have the right to impose a fee, plus expenses, for providing the agreed additional support. (Franchise Agreement, Section 4.6)

Continuing Obligations. During the operation of the Franchised Business, we will:

- A. Make available additional required and optional training programs as we deem appropriate. (Franchise Agreement, Section 5.2)
- B. Develop and maintain the Brand Standards. (Franchise Agreement, Section 6.1)
- C. Manage the operation of the Franchisee Portal, if applicable. (Franchise Agreement, Section 6.8)

- D. Notify you, via the Operations Manual or otherwise, when we establish specifications, require approval of vendors, or designate specific vendors for particular items. (Franchise Agreement, Section 6.10)
- E. Manage our Brand Standards Assessment program. (Franchise Agreement, Section 6.21)
- F. Manage the Brand Fund, as described below in this Item, and make available to you any creative materials financed by the Brand Fund. You agree to pay or to reimburse us for any costs to reproduce the materials and/or to customize the materials for your use. (Franchise Agreement, Section 10.2)
- G. Review your proposed advertising and promotional plans and materials. (Franchise Agreement, Section 10.6)
- H. Manage social media accounts, profiles, pages, and registrations that promote the Marks or the Franchised Business, if we require them to be registered in our name. (Franchise Agreement, Section 10.10)
- I. If we offer a customer warranty and/or satisfaction guarantee to Color World Housepainting customers, monitor and manage compliance with the warranty/satisfaction guarantee program. (Franchise Agreement, Section 6.18)
- J. Manage contracts and relationships with customers in national, regional or key account programs (“**Key Accounts**”). You agree to accept and perform the terms of such agreements (including, without limitation, special pricing, payment terms, timing of services, and central invoicing) in respect of locations within your Territory. (Franchise Agreement, Section 2.5)

Site Selection

You should select your business office site within your Territory, subject to our approval. Although we are not obligated to provide site selection assistance, our current policy is to provide you with our general criteria for site selection and with site selection counseling and assistance as we deem appropriate. We assume and strongly recommend that you will operate the franchised business from your home. The typical franchise will need approximately 300-500 square feet of space, half of which will be used for equipment storage. We recommend that you do not lease or purchase warehouse or office space during or after the initial 6 to 9 -month start-up phase. If you choose to lease or purchase warehouse or office space, you are solely responsible for obtaining and paying for the location. If used, you will need leased location of 300-500 square feet and it must be located within the Franchise Territory at your own discretion and without our approval.

Typical Time to Opening

We estimate that you will open your Franchised Business approximately 45 to 90 days after you sign the Franchise Agreement. Some factors which may affect this timing are arranging for the training session, equipping the Franchise, obtaining initial inventory, financing and business permit and contractor’s licensing requirements, and your personal operational needs. If you do not open the Franchised Business to the public by the opening deadline specified in your Franchise Agreement, we will have the right to terminate the Franchise Agreement. (Franchise Agreement, Sections 4.5 and 16.1.3)

You may not open your Franchised Business until: (1) initial training is completed to our satisfaction; (2) all amounts due to us have been paid; (3) we have been furnished with copies of all insurance policies and certificates required by the Franchise Agreement, or other documentation of insurance coverage and payment of premiums that we request; (4) you notify us that all approvals and conditions set forth in the Franchise Agreement have been met; (5) you have received all required permits and licenses or have made arrangements acceptable to us to operate under another existing license; and (6) you have ordered, received and installed your equipment, supplies, inventory and Computer System. You must be prepared to begin operating your Franchised Business immediately after we state that your Franchised Business is ready for opening.

Training Program

Before the Franchised Business opens, the Key Person (see Item 15) and any Owners that we designate must attend and successfully complete an initial training program. The training program generally consists of an approximately 6-week online pre-training course and a 5-day in-person training and familiarization program, as well as online access to initial orientation and training materials. The in-person component of the initial training program is usually conducted at our office located in Powell, Ohio as of the date of this disclosure document, but the training course may be held elsewhere in the future in our discretion. The training courses are conducted as necessary based on need. The Training Program is provided at no cost to you, but you will have to pay for travel, accommodations, meals and salaries for yourself and any senior management level employees who attend.

The following tables summarize our initial training program:

INITIAL MANAGEMENT TRAINING PROGRAM

Pre-Training Program

SUBJECT	HOURS OF CLASS-ROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
Pre-Training: Accounting & Reporting; Marketing; Processes; Sales & Estimating	Up to 240	0	Online/Webinar
TOTAL HOURS	Up to 240	0	

In-Person Training

SUBJECT	HOURS OF CLASS-ROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
Introduction and Orientation	2	0	Powell, Ohio
Office and Administration	2	0	Powell, Ohio
Accounting and Reporting	1	0	Powell, Ohio
Marketing	2	0	Powell, Ohio
Painting and Service Processes	2	6	Powell, Ohio
Sales and Estimating	8	16	Powell, Ohio
TOTAL HOURS	17	22	

The Training Program and other on-going training will be conducted by training personnel under the direction of Tom Hodgson, Jon Boston, and Carrie Robinson. Mr. Hodgson has over 25 years of experience with us and in Painting Services industry, Mr. Boston has 17 years of experience with us and in the Painting Services industry, and Ms. Robinson has more than 2 years of experience with us and in the Painting Services industry. We may use other training personnel under Mr. Hodgson's, Mr. Boston's, or Ms. Robinson's supervision for aspects of the training program. We use the Operations Manual as the reference material during our training sessions.

The individuals that we designate are required to successfully complete the pre-opening training. We alone have the right to judge whether a person has successfully completed the training program. Successful completion may require passing tests to establish proficiency in the delivery of services, use of technology and software applications, and other areas we designate. We will have the right to terminate the Franchise Agreement if, at any time during the pre-opening training program, we conclude in our sole judgment that any person required to attend the pre-opening training program does not possess the skills necessary to properly fulfill and discharge the demands and responsibilities required by the System or this Agreement. We have the right to vary the duration and content of initial training based on the trainee's prior experience in similar businesses.

After the Franchised Business opens, we will make available, at the time(s) and location(s) we designate, such other required and optional training programs as we deem necessary and appropriate. For training that we designate as required, the individuals that we designate are required to successfully complete the training. We have the right to provide training programs in person, by video, via the Internet, or by other means, as we determine, and the training may be performed by us, our affiliates, or third parties.

Advertising Programs

Pre-opening/Grand Opening Marketing. As described in Item 5, prior to the opening of your Franchised Business, we require you to pay us a non-refundable fee of \$7,000 for local advertising and promotional activities to promote your Franchised Business. We will provide you access to materials, digital files for marketing collateral, and preferred vendors during this time to assist with the development and execution of the Pre-Opening and Grand Opening Marketing requirements.

Local Marketing. As described in Item 6, we may provide local advertising and marketing materials and related services to promote the Franchised Business in your Territory, in return for which you will pay

us Local Marketing Fees, including ongoing local advertising. The materials and services will include the creation, production and placement of marketing and may include commercial advertising, internet advertising, email, direct mail and other media advertising, and local promotion.

You must order sales and marketing materials and services from us. If you desire to use your own advertising materials or services, you must obtain our prior approval. It is a material breach of the Franchise Agreement to use other marketing materials or services without our prior written approval (see “Approval Requirement” below). You may not advertise outside of your Territory without our approval, which may be withheld in our sole discretion (see Item 12).

Brand Fund. We have a marketing fund for the Color World Housepainting system (the “**Brand Fund**”). As described in Item 6, you must pay us a Brand Fund Contribution, currently 2% of Gross Revenue. We can increase the Brand Fund contribution above 2% of Gross Revenue; however, the contribution will not exceed two percent 3% of Gross Revenue. You must make the Brand Fund contribution at the same time that you pay your Royalty Fee. Company-Owned Outlets will contribute to the Brand Fund on the same basis as franchisees. Unless required by law, we will not be required to deposit the Brand Fund Contribution in a separate bank account, commercial account or savings account. Your contribution to the Brand Fund will be in addition to all other advertising fees set out in this Item 11.

The purpose of the Brand Fund is to support general development and recognition of the Color World Housepainting brand. We have the right to direct all advertising, media placement, marketing and public relations programs and activities financed by the Brand Fund, with final discretion over strategic direction, creative concepts, materials, endorsements, and geographic, market and media allocation. We may use the Brand Fund to pay costs and expenses as we determine in our sole discretion, including but not limited to: production of video, audio, written, online and mobile marketing materials; purchasing promotional items; sponsorship of sporting, charitable, or similar events; design, establishment, and maintenance of websites, social media, mobile applications and other electronic marketing; implementation of advertising programs, in-store promotions, direct mail, and media advertising; marketing and sales training; employing advertising agencies; conducting public relations, consumer research, product development, product testing, and test marketing programs; developing and implementing trade dress and design prototypes; fulfillment charges; salaries and expenses of employees of Color World Housepainting and affiliates working for or on behalf of the Brand Fund; fees of accounting firms, design firms, public relations firms, consultants and ad agencies; legal fees for advertising pre-clearance, defense of false advertising claims, and defense of any claims made regarding our administration of the Brand Fund; other administrative costs and overhead incurred in activities related to the administration and activities of the Brand Fund; and interest on any monies borrowed by the Brand Fund.

We will make available to you any creative materials designed by the Brand Fund. You must pay us to reproduce the materials and/or to customize the materials for your use.

We may develop advertising and promotional materials and displays for the solicitation of franchisees for the Brand. You must display such materials and displays as we require from time to time. Our consumer website and other online activities supported by the Brand Fund may also include information about our franchise opportunity. In addition, as of the date of this Disclosure Document, we offer a referral incentive program and our affiliate, Authority Brands, is sponsoring a franchise referral sweepstakes in conjunction with the referral incentive program. The referral incentive program pays \$5,000 to an existing franchisee of ours or any of our affiliated brands who first directly refers a candidate who (a) has not previously been referred to us by another source or otherwise been in contact with and/or engaged with us, our affiliates or third party consultants or agents; (b) has not previously signed a franchise agreement with us or any of our affiliated brands; (c) who meets our qualifications for becoming a franchisee; (d) signs a franchise agreement in a new location on or before March 31, 2022; and (e) pays the

Franchise Fee and any applicable Additional Household Fee in full at the time of signing the Franchise Agreement. The incentive payment is only paid with respect to the first franchise purchased by the candidate, regardless of the total number of franchises purchased in a single transaction. In addition, all existing franchisees who receive a referral incentive payment as described above may be eligible to win a sweepstakes prize. We anticipate that the referral sweepstakes will be scheduled to end at 11:59PM ET on March 31, 2022, but this may change at our sole discretion. Other limitations may apply. We may change or eliminate the referral incentive program at any time without notice. Franchisees participating in the referral program are not our sales agents and are not authorized to make any statements on our behalf, including any statements related to the financial performance or prospect for success of any franchise.

We have no obligation to make expenditures for you from the Brand Fund that are equivalent or proportional to your contributions, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the Brand Fund. You have no right to reduce or withhold contributions based on any alleged lack of benefits to your Franchised Business or based on failure by any other franchisee (with or without our permission) to make its contributions to the Brand Fund.

We may spend an amount greater or less than the total contributions of all Franchised Businesses to the Brand Fund in given year, and we may invest any surplus in a money market fund or comparable investment for future use by the Brand Fund. All interest earned on monies contributed to the Brand Fund will be used to pay advertising costs of the Brand Fund before other assets of the Brand Fund are expended.

We have no obligation to have the Brand Fund independently audited. We will, however, prepare an annual unaudited statement of contributions to and expenditures of the Brand Fund. You can obtain a copy by making a written request. Any expenditures for independent accounting services in connection with the annual statement will be charged to the Brand Fund.

As discussed in Item 1, we acquired the Color World Housepainting system from our Predecessor on January 10, 2022. Our predecessor’s allocation of Brand Fund expenditures for the fiscal year ending December 31, 2020 were as follows:

Expenses:	Marketing Platform	22.7%
	SEO and Website Management	27.4%
	Marketing Consulting	14.3%
	Social Media	9.3%
	Internal Marketing and Admin	26.3%
Total expenses:		100.0%

The Brand Fund is not a trust and does not give us a fiduciary obligation. Other than our express obligations in the Franchise Agreement, we assume no liability with respect to maintenance, direction, or administration of the Brand Fund. We have the right to incorporate, replace, change or dissolve the Brand Fund; however, the Brand Fund will not be terminated until all monies in the Brand Fund have been expended for marketing purposes or rebated to franchisees on a pro-rata basis.

Joint Marketing Programs and Cooperatives. We have the right to establish: (1) co-marketing programs in which Franchised Businesses and vendors (or other third parties) cross-promote each other’s goods and services; (2) joint marketing efforts in which multiple Franchised Businesses contribute to a specific ad or event; and/or (3) local or regional marketing co-operatives (“**Cooperatives**”) that pool funds of Franchised Businesses in a geographic area or with common characteristics on an ongoing basis to jointly promote the Marks and the Franchised Businesses. The amount we require you to spend or contribute to joint marketing programs and/or a Cooperative may be credited to your obligation for Local Marketing or,

at our option, to your Brand Fund obligation, or any combination of the two. You are required to participate in each applicable joint marketing program and comply with the rules of the program. As of the date of this disclosure document, we do not require you to participate in or to contribute to an advertising cooperative. If a Cooperative applicable to the Franchised Business is established during the term of this Agreement, you are required to become a member no later than 30 days after the date we approve for the Cooperative to begin operation. We have the right to designate any geographic area or set of common characteristics for purposes of establishing a Cooperative.

Approval Requirement. All proposed advertising and promotional materials that you intend to use must be submitted to us for approval at least 30 days before their intended use. You do not have to submit samples of materials that were prepared by us or that we have approved within the last twelve months. Proposed advertising materials are deemed to be disapproved unless we have approved them in writing within 15 days after your submission of the samples. All advertising and promotion must be in the media and of the type and format that we approve, must be conducted in a dignified manner, and must conform to our standards. You may not make any television or radio appearance or any statement to any public media in connection with the Franchised Business or the Brand unless you obtain our prior written approval.

You may not solicit or advertise to customers outside of your Territory without our permission. "Solicit" includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials or any other advertising. If any solicitation of customers within the Territory is in media that will or may reach persons outside of the Territory, you are required to notify us in advance and obtain our consent. If you receive a request for services or products from outside the Territory, you are required to refer that request to the Franchised Business located in the applicable territory (or to us, if we have not assigned the applicable territory to a Franchised Business). Notwithstanding the foregoing, under certain limited circumstances, you may process a request from outside of the Territory if the requested service is permitted under our policies. If we permit you to advertise, solicit, service or sell in areas outside of the Territory that are not serviced by another Franchised Business or by us or an affiliate, you must comply with all of the conditions and other requirements that we specify in the Operations Manual or otherwise with respect to such activities. All franchisees that operate in the same marketing area may be required to use a common toll-free telephone number in their advertising media. All advertising, including internet-based advertising, must be designed to route customers to the franchisee serving that customer's location.

Electronic Marketing and Electronic Communications. The use of any digital or electronic medium constitutes advertising and promotion subject to our approval. Unless we have agreed to it in writing, you may not use, register, maintain, or sponsor any website, URL, social media, blog, messaging system, email account, user name, text address, mobile application, or other digital, electronic, mobile or Internet presence that uses or displays any of our trademarks (or any derivative thereof) or that promotes any products or services of the Franchised Business. You may not, directly or indirectly, post or transmit advertisements or solicitations by telephone, e-mail, text message, instant message, website, social media, mobile apps, VoIP, streaming media, or other electronic media that are inconsistent with our brand advertising guidelines and standards. The brand advertising standards may include the use of disclaimers, warnings, and other statements that we prescribe. We have the right to require that social media accounts, profiles, pages, and registrations that primarily promote the Marks or your Franchised Business be registered in our name. For any such accounts that we permit to be registered in your name, you agree to provide us with the current login credentials within five days after opening the account or changing the credentials. We have the rights to: (i) access any social media accounts to take corrective action if the account or any postings are in violation of our policies; and (ii) take ownership of the accounts on expiration or termination of the Franchise Agreement and operate them thereafter as we see fit. We may offer to provide, or may require that you have, a website for your Franchised Business (which may be structured as a separate page of a website supported by the Brand Fund).

Pricing and Promotional Activities. To the extent permitted by applicable law where your Franchised Business is located, we have the right to establish maximum and/or minimum prices that you must follow for goods and services sold by the Franchised Business. You must participate in and comply with the terms of special promotional activities that we prescribe for franchisees generally or in specific geographic areas or for specific types of venues. These activities may include special offers, limited time offers, and pricing promotions. You must bear your own costs of participating in these activities and must display promotional signs and materials and otherwise participate in the manner we request.

Franchisee Advisory Council. We do not have an advertising council composed of franchisees that advises us on advertising policies. The Franchise Agreement gives us the right, in our discretion, to create a franchisee advisory council to communicate ideas, including proposed advertising policies. If created, we will determine in advance how franchisees are selected to the council. We reserve the right to change or dissolve the council at any time.

Our Obligation to Make Advertising Expenditures. Except as described above, we have no obligation to spend any amount on advertising in your Territory.

Technology Requirements

We have the right to specify the point-of-sale (POS) system, customer relationship management (CRM) system, back-office system, software applications, audio/visual equipment, security systems, electronic payment devices, and other hardware, software, and network connectivity for the Franchised Business. You must sign any standard license agreement or user agreement that may be required to use a system that we specify. You must use the required systems for service calls, managing inventory, reporting Gross Revenue and other information, training personnel, and other functions as we specify from time to time. You must ensure that your employees are adequately trained to use the systems and that they follow applicable policies.

As of the date of this disclosure document, we require the following:

- You must have or purchase a Microsoft Surface ProX Machine LTE, personal computer, smart phone, and/or tablet which meet our specifications and are capable of running the latest version of Microsoft Windows or Macintosh operating system. Your computer must be equipped to support Microsoft Office Professional suite and latest versions of Microsoft's web browser or Safari browser software.
- You must have access to the internet, communication networks and telephone system with adequate speeds to connect to our systems and conduct daily business activities. We estimate this cost will be in the range of \$300 to \$1,500 per year depending on your providers and the number of services you choose to purchase.
- We require that you purchase third party software or license software as a services (SaaS) (currently, QuickBooks) from us or our approved vendor list to support business activities and information / data integration to our systems. You must pay to our designated vendor the then-current fee.
- You must implement and use our designated CRM software.

- You must also have Adobe Acrobat and ProFoto or other document and imaging software that we designate.
- You will also be required to purchase virus protection software and content management software. You will also have to install a firewall protection system.
- You will be required to implement industry-standard administrative, physical, and technical security measures and devices to protect data from unauthorized access, acquisition, loss, destruction, disclosure or transfer, including firewalls and anti-virus systems. You are solely responsible for protecting the Franchised Business from computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, and attacks by hackers and other unauthorized intruders. If you refuse to purchase any required security products, we may purchase them for you and you must reimburse us. You are also required to use best efforts to verify that your suppliers, lenders, landlords, customers, and governmental agencies are reasonably protected. You will be solely responsible for data and data breaches and the associated risks and liability, even if we recommend a vendor. In the event of a known or suspected security breach, you agree to notify us promptly and comply with applicable laws and any instructions from us regarding response to the breach.
- You must update and upgrade your technology, at your expense, as we may require periodically to meet our specifications as they evolve. Upgrades, in some cases, may only be available through our designated suppliers. We may change the designated suppliers occasionally on written notice to you. (See Item 8). Neither we nor our affiliates have any obligation under the Franchise Agreement to provide ongoing maintenance, repairs, upgrades or updates. There is no contractual limitation on the frequency or expense you may incur for hardware and software upgrades and updates. We estimate the cost of optional or required maintenance, updates and upgrades will be approximately \$1,000 per year.

We anticipate the cost to purchase or lease a computer system and software meeting the above requirements will range from approximately \$500 to \$1,500 if you do not already have the necessary system and software. We estimate that these optional updates or upgrades will be approximately \$0 to \$250 per year.

Our system requirements and specifications may evolve over time. You must promptly update and upgrade your systems as we require, at your own expense. There is no contractual limitation on the frequency and cost of this obligation. We have the right to change to a different vendor for all of these systems and, in some cases, required items may only be available through us and/or designated vendors.

Data Access. We have the right to independently access your business data, wherever maintained. We also have the right to require you to deliver business data to us. We can use (and authorize others to access and use) franchisees' business data to, among other uses: (i) verify sales; (ii) monitor progress of Franchised Businesses, including compliance with Minimum Performance Requirement; (iii) prepare a financial performance representation for our Franchise Disclosure Document; and (iv) share vendor and supplier pricing data with our affiliates. There is no contractual limitation on our right to receive or use this information.

We own and have the right to access all customer data, in whatever form existing, and wherever stored. Because we own the customer data, we can share it with our affiliates, service providers, contracted third parties, or any other person, for any purpose, without notifying or compensating you, both during and

after the term of the franchise, including marketing and cross-selling products and services. Whenever we request, and without request upon termination or expiration of your Franchise Agreement, you must promptly deliver all customer data in your possession or control, without retaining any of it in any media. You may not sell or disclose to anyone else any personal information or aggregated or non-aggregated customer data without first obtaining our written consent. In the event of an approved sale of the Franchised Business to a new owner who will continue to operate the Franchised Business under an agreement with us, you may not transfer the customer data to the new owner.

If permitted by applicable law, we may monitor your e-mail, or other electronic communications and may disclose this information if we have a good faith reason to believe it is necessary for the purposes of ensuring your compliance with the Franchise Agreement or protecting our rights, property and interests (or those of our affiliates and franchisees and customers of our franchisees). As you use the Color World Housepainting Website, you may receive, access or use information, materials, graphics, software, data and content originated by us or other parties. We may terminate or suspend your access to, and listing or related information on, the Color World Housepainting Website at any time. Upon termination or suspension, your right to use the Color World Housepainting Website will immediately cease and any information you may have stored on the Color World Housepainting Website may no longer be accessible or available for retrieval. You are required to provide us with any information or material we deem necessary to comply with applicable law to promote your Franchised Business on the Color World Housepainting Website.

Operations Manual

The Table of Contents of the Operations Manual is in Exhibit H to this disclosure document. The Operations Manual has 17 pages.

ITEM 12 **TERRITORY**

Your franchise is granted for the Approved Location, which may be a home office or a commercial office space. If you wish to rent commercial space, it must be located within your Territory and you must request approval from us, which we may grant or refuse in our sole discretion, and submit a copy of the proposed lease prior to signing it. You acknowledge that other franchisees may manage their Franchised Businesses from home offices located within your Territory; however, they will not have the right to provide services within your Territory. You may not relocate your business premises without our prior written approval. If you ask to relocate, we will evaluate your request using the same standards that we apply to reviewing the proposed location of new Franchised Businesses. Unless otherwise agreed in writing, relocation does not change your Territory.

You will have a protected territory (“**Territory**”) during the term of your Franchise Agreement, provided you are in full compliance with the terms of the Franchise Agreement, including certain Minimum Performance Requirements (described below) and your obligation to primarily service customers in your Territory. “Protected” means that we will not operate a business under the Marks and the System in the Territory or authorize others to operate Franchised Businesses within the Territory, except as described below. This does not prohibit us from advertising or soliciting employees or independent contractors in your Territory.

You do 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.

A typical Territory will consist of a population of approximately 100,000 Households (with a variance that may be granted by Franchisor in its discretion) and will be defined using postal zip codes present at the time the Territory is established. Nonetheless, the Household population of the territory you receive may vary depending on a number of factors that we determine, including the geographic size of the Territory, the ratio of single-family residences to multi-unit dwellings (apartment/condo/townhouse buildings), and median/average household income. You will be able to choose your Territory based on available pre-defined Territories. We will use the most recent population information available in the U.S. Census Data, or other population statistical sources of our choosing to determine populations. Once we have determined your Territory, it will be defined in Appendix A to your Franchise Agreement. We make no representation or guaranty about the accuracy of the data provided by the third-party providers and therefore the actual Household population may be different than the actual counts at the time of signing the Franchise Agreement.

In our sole discretion, we may allow you to add Households to your existing Territory during the term of your Franchise Agreement. If we do so, you will be required to pay our then-current Additional Household Fee, currently \$0.50 per person.

We and our affiliates retain all rights not expressly granted to you in the Franchise Agreement. Among other things, regardless of the proximity to or the effect on your Franchised Business, we and our affiliates can:

- establish, operate, franchise, and license others to operate businesses under the Marks at any location outside of the Territory;
- operate a business under the Marks inside the Territory if: (i) we (or our affiliate) is operating a business under the Marks in the Territory as of the date you sign the Franchise Agreement; or (ii) we have notified you before you signed the Franchise Agreement that we (or our affiliate) intends to operate a business under the Marks in the Territory;
- use the Marks in other lines of business, anywhere in the world;
- establish and operate, and grant others the right to establish and operate, similar businesses or any other businesses offering similar or dissimilar products and services through similar or dissimilar channels of distribution, at any locations inside or outside the Territory, under trademarks or service marks other than the Marks.
- develop, manufacture, have manufactured, advertise, market, sell and distribute, at retail or wholesale, and license others to manufacture, sell or distribute, goods or services that are identical or similar to and/or competitive with those provided at your Franchised Business, whether under the Marks or any other name or mark, through dissimilar channels of distribution, including but not limited to through the Internet, mobile applications, telemarketing, retail stores, and wholesale clubs, or other distribution outlets (other than Franchised Businesses) both inside and outside the Territory;
- establish and operate, and to grant others the right to operate, businesses offering dissimilar products and services both inside and outside the Territory under the Marks; and

- To acquire, be acquired by, or merge with other brands or outlets, even if the concepts or outlets are similar to the business operated under the System, and even if they have locations in the Territory. We will also have the right, in our sole discretion, to convert one or more outlets of the acquired, acquiring or merged brand to a Franchised Business within the Territory.

We have no obligation to compensate you in connection with any of these activities.

Activities Outside of the Territory. You may not perform services or sell products related to the Franchised Business outside of the Territory without our prior written consent, which we may give and withdraw as we deem appropriate, and which we may condition on you obtaining a separate phone number or other requirements. You may not solicit or advertise to customers outside of the Territory without our permission. “Solicit” includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials or any other advertising. If any solicitation of customers within the Territory is in media that will or may reach persons outside of the Territory, you are required to notify us in advance and obtain our consent. If you receive a request for services or products from outside the Territory, you are required to refer that request to the Franchised Business located in the applicable territory (or to us or our affiliate, if we have not assigned the applicable territory to a Franchised Business). However, under certain limited circumstances, you may process a request from outside of the Territory if the requested service is permitted under our policies or otherwise approved by us. If we permit you to advertise, solicit, service or sell in areas outside of the Territory that are not serviced by another Franchised Business or by us (or our affiliate), you will be required to comply with all of the conditions and other requirements that we may from time to time specify in the Brand Standards Manuals or otherwise in writing with respect to such activities. We may at any time condition your continued out-of-Territory sales and services on your agreement to purchase the franchise rights for the territory in which the sales and services are being performed. At any time upon our demand or upon notice from us that the territory in question has been assigned to another Franchised Business, you must immediately cease all activities in that territory and comply with our procedures for the transition of customer accounts for that territory. Under no circumstances will we be liable to you for violations by other Franchised Businesses of our policies on out-of-Territory sales and services.

Key Accounts. We may from time to time enter into agreements to provide services to customers as part of a national, regional or key account program (“**Key Accounts**”) at locations which include locations within the Territory. You must accept and perform the terms of such agreements (including, without limitation, special pricing, payment terms, timing of services, and central invoicing) with respect of locations within the Territory. If you refuse to perform the required services or we determine that your Franchised Business is not qualified, interested, able or available to perform the services, you are required to allow either our employee(s) or another franchisee to enter the Territory to perform the required services. In the case of an agreement under which the customer will pay a fixed amount for services at all locations listed in the agreement, we may allocate the fixed amount among the businesses performing the services.

Other Channels of Distribution. You may not offer products or services through any channel other than those we have expressly approved. If you request approval of any other distribution channel or type of outlet, we will consider the factors we deem appropriate, which may include the period of time you have been operating the Franchised Business, your sales volume, whether you have met quality standards and other benchmarks, and other standards that we may determine. You may not sell products to any vendor who would in turn sell to consumers.

Minimum Performance Requirements and Modifications to Your Territory. During the term of your Franchise Agreement, you will be required to meet the following minimum performance requirements (the “**Minimum Performance Requirements**”):

Time Period Following Original Opening Date	Minimum Gross Revenue for 12-Month Period		
	For 1 Territory	For 2 Territories	For 3 Territories
Months 1 to 12	\$150,000	\$112,500 for each Territory	\$100,000 for each Territory
Months 13 to 24	\$275,000	\$175,000 for each Territory	\$150,000 for each Territory
Months 25 to 36	\$400,000	\$250,000 for each Territory	\$208,333 for each Territory
Months 37 to 48	\$525,000	\$325,000 for each Territory	\$266,667 for each Territory
Month 49 to Expiration Date	\$650,000	\$400,000 for each Territory	\$333,333 for each Territory

“Original Opening Date” means the date on which you or any prior owner or predecessor operator of the Franchised Business first opened the Franchised Business.

If you do not achieve the applicable Minimum Performance Requirements, we will have the right to:

- reduce the size of the Territory;
- establish or license a third party(ies) to establish a Franchised Business within the Territory;
- require you to implement a revenue improvement program, which may include, among other things, engaging in specified marketing activities, or
- terminate your Franchise Agreement.

If we require you to implement a revenue improvement program, your failure to comply with the terms of the revenue improvement program or failure to achieve Minimum Performance Requirements will allow us to terminate the Franchise Agreement. The Minimum Performance Requirements are not a representation or guarantee of any financial results.



We do not have an obligation to reserve contiguous territories for you. You do not receive an option, right of first refusal or similar rights to acquire additional franchises within your Territory or contiguous territories.

As noted in Item 1, we have several affiliates that offer franchises for other types of services under different trademarks. As of the date of this disclosure document, they do not sell goods or services similar to those of the Color World Housepainting franchise, but some of their goods and services may be viewed as complementary to our brand’s goods and services. You do not receive any rights with respect to the franchises offered by our affiliates. Neither we nor any of our affiliates have established any formal procedures to resolve conflicts that may develop among the affiliates concerning territory, customers, or franchisor support.

**ITEM 13
TRADEMARKS**

The principal trademark we license you to use is the COLOR WORLD HOUSEPAINTING Logotype shown on the cover page of this disclosure document. The term “principal trademarks” means the primary trademarks, service marks, names, logos, and commercial symbols that you will use to identify the Franchised Business, and does not include every trademark associated with the Color World Housepainting brand. The term “Licensed Marks” is a broader term encompassing all of the marks we designate for the operation of Color World Housepainting businesses.

Our affiliate, CWNH, owns and has registered the following Licensed Marks on the Principal Register of the United States Patent and Trademark Office (“USPTO”):

TRADEMARK	REGISTRATION NUMBER	DATE OF REGISTRATION
COLOR WORLD HOUSEPAINTING	2418999	January 9, 2001
	5117513	January 10, 2017
COLOR WORLD	5179220	April 11, 2017
	6587440	Dec. 14, 2021

All required affidavits and renewals have been or will be filed for the marks listed above.

We entered into a license agreement with our affiliate CWNH concerning the Licensed Marks (the “**License Agreement**”). Under the License Agreement, CWNH granted us a non-exclusive, royalty-free right to use, and to license others to use, the Licensed Marks in the United States for the purpose of operating and franchising Color World Housepainting businesses. The License Agreement is perpetual, but is terminable by either party for breach. If the License Agreement is terminated, we may not be able to continue to use (and if that happens, you may no longer have the right to use) the Licensed Marks.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or of any court, nor is there any pending infringement, opposition or cancellation proceedings or any pending material litigation involving the principal marks. Other than the License Agreement, There are no currently effective agreements that limit our right to use or license the use of the principal marks. We do not know of any superior prior rights or infringing uses that could materially affect your use of the principal Marks in your state.

We may also use a number of unregistered, common law trademarks. You must follow our rules when you use our Licensed Marks. You may not use any of the Licensed Marks alone or with modifying words, designs or symbols as part of a corporate or business name or in any form on the Internet, including but not limited to URLs, domain names, e-mail addresses, locators, links, metatags or search techniques.

You must get our prior written approval of your company name before you file any registration documents. You must indicate, as required in the Franchise Agreement and specified in the Operations Manual, that you are an independent operator. Guidelines regarding proper trademark use and notices are in the Operations Manual and will be updated periodically in our discretion. You may not use the Marks with an unauthorized product or service, or in a manner not authorized in writing by us.

You must notify us immediately when you learn about an infringement of or challenge to your use of the Licensed Marks. We may take whatever action we deem appropriate. We are not required to participate in your defense and/or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the Licensed Marks. However, if we request you to join in any action, we will bear all of your out-of-pocket costs for such participation.

If we replace, add to, modify, or discontinue any of the Licensed Marks, you must make corresponding changes as we direct. If this happens, you are responsible for the costs of compliance (for example, changing letterhead and business cards). You must not directly or indirectly contest our rights to the Licensed Marks, or any other trademarks, trade names, service marks, logos, trade secrets or business techniques that are part of our business.

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

Patents. We do not own any patents that are material to the franchise.

Copyrights. We (or our affiliates, in some cases) claim copyright protection for certain materials (the “**Works**”), which may include, but are not limited to, the Operations Manual, our websites, software, mobile apps, advertisements, artwork, promotional materials, signs, and vehicle graphics. We have not registered the copyrights in any of the Works, but we may do so at any time. You can use the Works only for the purpose of establishing and operating your Franchised Business.

Proprietary Information. We (or our affiliates, in some cases) claim proprietary rights in all Confidential Information, as defined in the Franchise Agreement, including the standards, methods, procedures and specifications of the System and the contents of the Operations Manual. You must maintain the absolute confidentiality of the Confidential Information both during the term and after the termination or expiration of the Franchise Agreement and not disclose any of the Confidential Information for any reason except as permitted by the Franchise Agreement. You can disclose the Confidential Information to your owners, officers, directors, members, partners, manager and employees only to the extent necessary for the operation of the Franchised Business in accordance with the Franchise Agreement. You further agree not to use any of the Confidential Information, directly or indirectly, in any other business or in any other manner or obtain any benefit from it not specifically approved in writing by us both during the term of the Franchise Agreement or afterwards. You may not at any time copy, duplicate, record or otherwise reproduce any part of the Operations Manual.

All data that you collect from customers and potential customers in connection with the Franchised Business during the term of the Franchise Agreement (“**Customer Data**”) is our proprietary information and property and you must provide the Customer Data to us at any time that we request. We reserve the right to require that you provide us with remote access to your computer systems and all data related to the Franchised Business stored therein, in a manner that meets our System standards and specifications. You have the right to use Customer Data while the Franchise Agreement or a renewal franchise agreement is in effect, but only in connection with operating the Franchised Business and only in accordance with the policies that we establish from time to time. You may not sell, transfer, or use Customer Data for any

purpose other than operating and marketing the Franchised Business. If you transfer the Franchised Business, you cannot transfer the Customer Data to the buyer. At the expiration or termination of the Franchise Agreement for any reason, you will promptly turn over to us the Customer Data and make no further use of it for any purpose. Since your business relationship with customers is attributable solely to the Marks and the goodwill associated with the Marks, all such business relationships with all customers will revert to us and become our sole and exclusive property upon termination or expiration of the Franchise Agreement.

You may not introduce any “**Improvement**” (defined as any change, idea, innovation, concept (including any advertising slogan or idea), product, process, or improvement that may enhance or improve the System) into the Franchised Business without our prior written consent. Any Improvement developed by you or any owner, employee or agent is deemed to be our property. At our request, you must provide us with information about the Improvement and sign any documents necessary to verify assignment of the Improvement to us, without compensation. We will have the right to use, disclose, and/or license the Improvement for use by others.

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

You must designate an individual who will be responsible for the day-to-day operational performance of the Franchised Business and who has the authority to bind Franchisee in all decisions regarding the Franchised Business (the “**Key Person**”). The Key Person need not be an Owner of the Franchised Business. However, the Key Person must complete our initial training program described in Item 11 and must work on premises at your business office.

We have the right to rely on any statement, agreement, or representation made by the Key Person on your behalf. The Key Person must certify your financial statements as correct and complete when you submit them to us. If the Key Person leaves your organization, you must nominate a replacement within 30 days, and if you have not obtained our approval of a replacement within 90 days, you will be in material default of the Franchise Agreement.

If the Franchisee is or will be a business entity, all of its Owners (whether or not they are involved in the operation of the Franchised Business) who own five percent (5%) or greater interest in the business entity must sign the Personal Guarantee attached to the Franchise Agreement, making each Owner individually liable for all obligations under the Franchise Agreement. If any of your Owners is also a business entity instead of an individual, we have the right to require that the Personal Guarantee be executed by individuals and any other business entities that have direct or indirect ownership in the Franchisee.

The spouse of an Owner is not required to sign a Personal Guarantee if the spouse has no ownership interest in the business entity. However, the spouse will be required to sign a Spouse Acknowledgement in the form attached to the Personal Guarantee, by which the spouse acknowledges that we are relying on all assets of the guarantor, including jointly owned marital property, in accepting the guarantor’s obligations. The Spouse Acknowledgment is attached to the Franchise Agreement. The spouse also agrees to be bound by the non-competition and non-disclosure restrictions, dispute resolution provisions, and governing law provision contained in the Franchise Agreement.

At our request, the Owners, Key Person, officers, directors, managers, members, and any employees we designate are required to sign a separate Confidentiality and Non-Compete Agreement (the form of which is attached to the Franchise Agreement). In addition, you and the Owners authorize us to run

credit and background checks and to make inquiries of the Franchisee's bank, suppliers, and trade creditors concerning the Franchised Business.

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

You are required to offer and sell all products and services that we designate as required items for Color World Housepainting businesses. You may also offer for sale any optional products and services that we have approved for sale in the Franchised Business. You are prohibited from offering any unapproved products or services without our prior written consent, and you must discontinue selling or offering for sale any products or services that we disapprove at any time. You primarily will be targeting homeowners as customers.

We have the right to add products or services that you must offer. There are no limits on our right to do so. We will have the right to determine if services offered are appropriate for your Franchised Business.

Customer Warranty. You must provide to your customers a warranty and satisfaction guarantee for the period that we require in the Operations Manual on all Products used and Services provided in your Franchised Business. We may change the required warranty and satisfaction guarantee at any time.

You may not offer products or services through any channel other than those we have expressly approved. If you request approval of any other distribution channel or type of outlet, we will consider the factors we deem appropriate, which may include the period of time you have been operating the Franchised Business, your sales volume, whether you have met quality standards and other benchmarks, and other standards that we may determine. You do not receive the right to sell products to any vendor who would in turn sell to consumers.

In the marketing and operation of the Franchised Business, you must use only the customer contracts, waivers, and/or other forms we designate from time to time. We may provide templates or sample forms of such items, but it is your responsibility to have all items which are to be used with prospective and/or actual customers reviewed by an attorney licensed to practice law in the state(s) where the Franchised Business is operated, for compliance with all applicable state and local legal requirements. We do not represent that any contracts, waivers and/or other forms and/or materials we supply are in compliance with the laws of any particular state(s) or locality.

You must provide services for any Key Accounts with locations in your Territory (see Item 12). If you refuse to perform the required services, or if we determine that your Franchised Business is not qualified, interested, able or available to perform the services, you are required to allow us or another franchisee to service the Key Account.

You may not perform services or sell products related to the Franchised Business outside of your Territory without our prior written consent, which we may give and withdraw as we deem appropriate. We may condition approval on, among other things, you obtaining a separate phone number or other requirements. You may not solicit or advertise to customers outside of the Territory without our permission. "Solicit" includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials or any other advertising. Please see Item 12 for further details.

You may be required to participate in programs relating to gift cards, gift certificates, stored value cards, online or mobile coupons or credits, online or mobile ordering systems, and other electronic money programs we prescribe for Franchised Businesses. Participation includes both issuing program benefits or credits and accepting them for payment by customers, and may require you to purchase additional equipment. We will have the right to coordinate the crediting and debiting of funds among Franchised Businesses based on customer purchases and redemption of stored value. You are also required to participate in any customer loyalty programs we prescribe. You may not offer your own gift card, electronic money, or loyalty program for the Franchised Business without our prior written approval.

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	Section 3	10 years
b. Renewal or extension of the term	Section 19	You can renew the franchise for one additional term of 10 years if you meet certain conditions.
c. Requirements for you to renew or extend	Section 19	Conditions include: Written notice of your desire to renew; no default; good record of customer service and compliance with Brand Standards; on good terms with us, including no litigation or other adversarial legal proceedings with us; at our option, sign our then-current form of franchise agreement; pay renewal fee; sign general release of claims against us (<u>Exhibit D</u> to this disclosure document); meet our training requirements; demonstrate right to remain in the Approved Location for the renewal term; remodel, refurbish, or renovate your vehicles and premises; and update computer systems and vehicles. The successor Franchise Agreement may contain terms that are materially different from your expiring Franchise Agreement, such as different fee requirements and adjustment of the Territory.
d. Termination by you	Not applicable.	Subject to state law.

Provision	Section in Franchise Agreement	Summary
e. Termination by us without cause	Not applicable.	
f. Termination by us with cause	Section 16	See g. and h. below. In addition, your default under any other agreement that you or an affiliate has with us or our affiliates will constitute a default, subject to any applicable provisions for notice and cure set forth in the other agreement.
g. "Cause" defined - defaults which can be cured	Sections 16.2, 16.3, 16.6 and 16.7	<p>You have 7 days to cure non-payment and 30 days to cure other defaults, except for those described in h. below.</p> <p>We have a "step in" right if you fail to cure a default within the applicable cure period (if any). This clause gives us the right, but not the obligation, to operate the Franchised Business on your behalf (or designate a third party to do so) until we determine that the default has been cured. If we exercise the step-in right, you must pay us (or our designee) a fee of up to \$500 per day and reimburse us (or our designee) for all costs and overhead incurred in connection with the operation of your Franchised Business, including costs of personnel and their travel and lodging. In addition, you must indemnify us against any fines, claims, suits or proceedings which may arise out of our operation of the Franchised Business. The step-in right does not preclude our right to terminate the Franchise Agreement if your default is not cured.</p> <p>We also have certain other pre-termination options if you are in default. They include: removing the Franchised Business from listings of our locations, prohibiting you from attending brand meetings, charging a default royalty rate (see Item 6), suspending access to the call center and technology platforms, and suspending other services. These actions are in addition to our right to terminate and/or bring a claim for damages.</p>

Provision	Section in Franchise Agreement	Summary
h. "Cause" defined – non-curable defaults	Section 16.1	Non-curable defaults include: failure to obtain an Approved Location or to open for business by deadline; failure to complete pre-opening training to our satisfaction; unauthorized closing; loss of premises or right to do business; refusing inspection or access to records; operating Competing Business (see q. below); unapproved transfer of ownership or business assets; disclosure of our confidential information; maintaining false books, underreporting sales, engaging in fraud or embezzlement, or misappropriating employee funds; conviction of felony or certain other crimes; insolvency, receivership, or dissolution of your business entity or loss of business license; if Franchisee or any Owner appears on a list of "blocked" persons under any anti-terrorism or similar law; breach of essential provision; failure to achieve minimum score on consecutive assessments; failure to maintain required insurance; failure to resolve customer complaint; failure to attend our annual convention for two consecutive years; failure to conduct background checks; repeated defaults even if cured.
i. Your obligations on termination/non-renewal	Sections 16.8 and 17	We have the option to assume your lease (if any), buy the business assets, and take over your customer contracts. If we do not exercise these options, your obligations include ceasing to operate the Franchised Business, complete de-branding, deactivating or transferring domain name registrations and social media accounts for the Franchised Business, transferring your business telephone number and listings to us, paying all amounts due, returning all of our materials, and complying with confidentiality and non-compete restrictions, among others (also see o. and r. below). If termination was based on your default, you must also pay us liquidated damages (see Item 6).
j. Assignment of contract by us	Section 15.8	No restriction on our right to assign.

Provision	Section in Franchise Agreement	Summary
k. "Transfer" by you – definition	Section 15.1	Restrictions apply to transfers of any direct or indirect interest in the Franchise Agreement, in the assets of the Franchised Business, or in the equity ownership of Franchisee (if the Franchisee is a corporation or other entity).
l. Our approval of transfer by franchisee	Section 15.1	We have the right to approve all transfers.
m. Conditions for our approval of transfer	Sections 15.2 and 15.3	We can impose any reasonable conditions, including: no default exists; proposed transferee meets our qualifications, signs our then-current Franchise Agreement (and owners sign our personal guarantee), successfully completes training, makes arrangements to upgrade the business to our current standards, and, if a current franchisee at another location, is not in default and signs a general release; you pay transfer fee (plus any applicable third-party broker fee) and sign release of claims against us (<u>Exhibit D</u> to this disclosure document); price and terms do not harm viability of Franchised Business; and any financing is subordinated to obligations to us.
n. Our right of first refusal to acquire your business	Section 15.6	We have the right to match any offer that would result in a change of control of the Franchised Business, except in the case of transfer to a spouse and/or adult children.
o. Our option to purchase your business	Section 17.1	No option except upon expiration or termination of the franchise. See i. above.
p. Your death or disability	Section 15.4	Your executor or personal representative must apply to us within 3 months to transfer the interest of the deceased or incapacitated person to an approved party, and must complete transfer within 1 year. If the deceased or incapacitated person is the Key Person, we have the right to manage the Franchised Business until the transfer is completed.

Provision	Section in Franchise Agreement	Summary
q. Non-competition covenants during the term of the franchise	Section 14.1	No involvement in “ Competing Business, ” defined as any business that: (i) engages in residential or commercial interior or exterior painting; deck painting, staining, or repair; fence painting or staining; power washing; minor carpentry or repair services; drywall repair; gutter installation or removal; or holiday lighting or services similar to those offered by the Franchised Business, (ii) grants franchises or licenses to others to operate such businesses, or (iii) is the same or substantially similar in nature or purpose to the Franchised Businesses (other than a “Color World Housepainting” business operated under a franchise agreement with us). This is subject to state law.
r. Non-competition covenants after the franchise is terminated or expires	Section 14.2	No involvement with Competing Business for 2 years after expiration, termination, or approved transfer of the franchise. Applies if the Competing Business is located or serves customers (i) within the Territory, (ii) within forty (40) miles of the Territory, (iii) within any zip code where the Franchised Business served customers during the term, (iv) within the territory of any other then-existing Franchised Businesses plus the area formed by extending the boundaries of that territory ten (10) miles in all directions, or (v) within the territory serviced by any business operated under the Marks by us or our affiliates, plus the area formed by extending the boundaries of that territory ten (10) miles in all directions. This is subject to state law.
s. Modification of the agreement	Sections 22.12 and 22.13	Modifications must be in writing signed by both parties, except: (a) we have the right to change the Brand Standards Manuals, and (b) all of your existing franchise agreements are amended by signing the Franchise Agreement for an additional location.

Provision	Section in Franchise Agreement	Summary
t. Integration/merger clause	Section 22.12	Only the terms of the franchise agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Sections 23.2, 23.3 and 23.4	<p>With the exception of actions for provisional relief, to collect fees due under the Franchise Agreement, to seek an injunction, to protect our intellectual property, to terminate the Franchise Agreement for default, and to enforce post-term obligations, we, you, and the Owners must arbitrate all disputes in Columbia, Maryland.</p> <p>All of these provisions are subject to state law in your state.</p>
v. Choice of forum	Section 23.6	<p>Subject to the arbitration requirement, you and the Owners must file any suit against us in federal court in the district where our headquarters is located at the time the suit is filed (currently Columbia, Maryland). We can sue you in federal or state court in the district where our headquarters is located at the time the suit is filed or where the Franchised Business is located. You and we both waive the right to trial by jury and the right to seek punitive damages.</p> <p>All of these provisions are subject to state law in your state.</p>
w. Choice of law	Section 23.1	Maryland law applies (subject to state law).

**ITEM 18
PUBLIC FIGURES**

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

ITEM 19
FINANCIAL PERFORMANCE REPRESENTATION

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.

Financial Performance Representation

The following representation relates to the Color World Housepainting outlets that had operations during the entire 2020 calendar year. This includes an outlet that was operated by Color World Housepainting, Inc., an affiliate of our Predecessor, in the Columbus, Ohio in an area approximately the size of 3 standard franchise territories. This outlet is now owned by our affiliate, Color World New Housepainting, LLC. The franchised outlets are located in various states and operate in various numbers of territories. Most of the franchised outlets opened during the 2019 calendar year and had their first full year of operations in 2020. Only our franchisee in Cincinnati, Ohio had its first full year of operations prior to 2020.

Accordingly, the following financial performance representation relates to: (1) the 11 franchisees (representing 39 territories) that had operations during the entire 2020 calendar year; and (2) the affiliate-owned operation in Columbus, Ohio during the entire 2020 calendar year. The representation includes four separate sections, with tables exhibiting information concerning:

Section 1 - 2020 affiliate and franchisee individual sales and performance data

Section 2 - 2020 average and median sales and performance data

Section 3 - 2020 system-wide sales

Section 4 - our affiliate's 2020 profit & loss statement

See the notes following the tables for additional information.

[Remainder of page intentionally left blank]

Section 1 - 2020 Sales and Performance Data

The following tables show 2020 sales and performance data for each of our franchised outlets that operated for the entire 2020 calendar year and for our Predecessor's affiliate in Columbus, Ohio. The data in the following tables comes from the actual reported historical performance for our operational franchisees and our Predecessor's affiliate in Columbus, Ohio during the period from January 1, 2020 to December 31, 2020. See the notes following the tables for additional information.

Franchise Outlets

There were 11 Color World Housepainting franchisees (representing 39 territories) that operated for the entire 2020 calendar year. The 2020 sales and performance data for each of these franchisees is included in the tables below. The tables do not include data for new franchise outlets that opened during the 2020 calendar year or for any franchise outlets that left the system during the 2020 calendar year. The included franchise outlets are:

Franchise Location	Description and Territory Size
N Charlotte, North Carolina	This franchise operated in 5 franchise territories consisting of approximately 512,667 households.
Raleigh, North Carolina	This franchise operated in 6 franchise territories consisting of approximately 737,279 households.
Omaha/Lincoln, Nebraska	This franchise operated in 4 franchise territories consisting of approximately 451,564 households.
Cincinnati, Ohio	This franchise operated in 2 franchise territories consisting of approximately 779,799 households.
Sarasota, Florida	This franchise operated in 2 franchise territories consisting of approximately 266,024 households.
SE Denver, Colorado	This franchise operated in 5 franchise territories consisting of approximately 511,473 households.
NE Detroit, Michigan	This franchise operated in 3 franchise territories consisting of approximately 298,312 households.
Houston, Texas	This franchise operated in 5 franchise territories consisting of approximately 640,962 households.
Lexington, Kentucky	This franchise operated in 1 franchise territory consisting of approximately 249,794 households.
Austin, Texas	This franchise operated in 5 franchise territories consisting of approximately 632,525 households.
Littleton, Colorado	This franchise operated in 1 franchise territory consisting of approximately 112,380 households.

[Remainder of page intentionally left blank]

2020 Sales and Performance Data

Total Sales: Subsets

The table shows 2020 Total Gross Sales data for the 11 franchisees that operated during the entire 2020 calendar year. It breaks the data into three subsets: Top, Middle, and Bottom.

TOTAL GROSS SALES							
	#	Lowest in Group	Highest in Group	Average	Median	# above Average	%above Average
Top	4	\$803,614	\$1,088,757	\$897,684	\$849,183	1	25%
Middle	3	\$404,419	\$302,557	\$342,113	\$319,363	1	33%
Bottom	4	\$95,206	\$271,011	\$196,087	\$209,065	3	75%
Total	11	\$95,206	\$1,088,757	\$491,038	\$319,363	4	36%

Notes:

- 1) Of the 4 franchisees in the Top subset, 4 (100%) operated more than one territory.
- 2) Of the 3 franchisees in the Middle subset, 3 (100%) operated more than one territory.
- 3) Of the 4 franchisees in the Bottom subset, 2 (50%) operated more than one territory.
- 4) The affiliate operation in Columbus, Ohio had 2020 total revenues of \$2,081,249 in an area the size of approximately 3 standard franchise territories.
- 5) "Gross Sales" means all receipts generated by the franchisee from any source, including, but not limited to, sales, repairs, services, labor, service charges, service contracts, any other type of remuneration, and excludes discounts, refunds, sales or service taxes collected from the customer and paid to the appropriate taxing authority. Gross Sales includes all receipts generated whether based on painting and coating (such as paint, sealers, epoxy, lacquer, etc) or preparation, cleaning and repairs (such as project prep work, power washing, gutter installation, drywall, carpentry, etc) or decorating work (such as holiday lighting, etc.) and any other services that a franchisee offers and sells, or should offer and sell, through the franchise. Credit transactions are included in Gross Sales as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or other recovery franchisees receive are included in "Gross Sales."

Painting, Gutter Installation, and Holiday Lighting Performance Data

The following tables separate the data by service – painting, gutter installation, and holiday lighting - followed by total 2020 sales for all services. Each of the first three tables includes data for Quotes, Jobs, Sales, Job Size and Closing Rate. These terms are defined in the Notes following the third table.

Painting

Affiliate Location	Painting Quotes	Painting Jobs	Painting Sales	Painting Average Job Size	Painting Closing Rate
Columbus	1471	512	\$1,714,359	\$3,348	35%

Franchisees	Painting Quotes	Painting Jobs	Painting Sales	Painting Average Job Size	Painting Closing Rate
Cincinnati	539	210	\$722,080	\$3,438	39%

Franchisees	Painting Quotes	Painting Jobs	Painting Sales	Painting Average Job Size	Painting Closing Rate
Omaha/Lincoln	886	299	\$803,952	\$2,689	34%
Raleigh	625	189	\$857,530	\$4,537	30%
Lexington	131	39	\$207,078	\$5,310	30%
N Charlotte	863	246	\$956,094	\$3,887	29%
Sarasota	411	118	\$351,427	\$2,978	29%
NE Detroit	378	89	\$275,702	\$3,098	24%
Houston	313	72	\$239,120	\$3,321	23%
SE Denver	425	93	\$257,125	\$2,765	22%
Austin	293	53	\$120,188	\$2,268	18%

Notes:

- 1) “Painting Quotes” refers to each separate estimate or bid for a prospective Painting Job to potential customers.
- 2) “Painting Jobs” refers to each separate Painting job, project or products and services package purchased by customers.
- 3) “Painting Sales” refers to the total revenue derived from the sale of Painting products and services. This number does not reflect any standard operational expenses, including ongoing royalties and operations and products costs and fees, or profit or margins calculated by comparing sales to expenses.
- 4) “Average Painting Job Size” is total Painting Sales divided by the number of Painting Jobs provided to customers.
- 5) “Painting Closing Rate” is the number of Painting Jobs actually purchased by customers divided by the number of Painting Quotes given to prospective customers.

Gutter Installation

Affiliate	Gutter Quotes	Gutter Jobs	Gutter Sales	Gutter Average Job Size	Gutter Closing Rate
Columbus	71	23	\$107,895	\$4,691	32%

Franchisees	Gutter Quotes	Gutter Jobs	Gutter Sales	Gutter Average Job Size	Gutter Closing Rate
Lexington	3	2	\$4,590	\$2,295	67%
N Charlotte	37	14	\$70,703	\$5,050	38%
NE Detroit	11	4	\$9,550	\$2,388	36%
Cincinnati	36	12	\$48,474	\$4,040	33%

Franchisees	Gutter Quotes	Gutter Jobs	Gutter Sales	Gutter Average Job Size	Gutter Closing Rate
SE Denver	13	4	\$10,248	\$2,562	31%
Sarasota	19	5	\$13,599	\$2,720	26%
Houston	26	6	\$6,492	\$1,082	23%
Omaha/Lincoln	14	3	\$7,140	\$2,380	21%
Austin	211	42	\$60,286	\$1,435	20%
Raleigh	1	0	\$0	\$0	0%
Littleton	2	0	\$0	\$0	0%

Notes:

- 1) “Gutter Quotes” refers to each separate estimate or bid for a prospective Gutter Job to potential customers.
- 2) “Gutter Jobs” refers to each separate gutter job, project or products and services package purchased by customers.
- 3) “Gutter Sales” refers to the total revenue derived from the sale of gutter products and services. This number does not reflect any standard operational expenses, including ongoing royalties and operations and products costs and fees, or profit or margins calculated by comparing sales to expenses.
- 4) “Average Gutter Job Size” is the total amount of Gutter Sales divided by the total Gutter Jobs provided to customers.
- 5) “Gutter Closing Rate” the number of Gutter Jobs actually purchased by customers divided by the number of Gutter Quotes given to prospective customers.

Holiday Lighting Installation

Affiliate	Lighting Quotes	Lighting Jobs	Lighting Sales	Lighting Job Size	Lighting Closing Rate
Columbus	593	292	\$258,995	\$887	49%

Franchisees	Lighting Quotes	Lighting Jobs	Lighting Sales(\$)	Lighting Average Job Size	Lighting Closing Rate
Sarasota	46	37	\$39,393	\$1,065	80%
Lexington	3	2	\$4,372	\$2,186	67%
Raleigh	12	7	\$17,991	\$2,570	58%
Omaha/Lincoln	24	14	\$11,752	\$839	58%
Cincinnati	54	30	\$33,060	\$1,102	56%
SE Denver	89	42	\$51,990	\$1,238	47%

Franchisees	Lighting Quotes	Lighting Jobs	Lighting Sales(\$)	Lighting Average Job Size	Lighting Closing Rate
Littleton	13	6	\$6,442	\$1,074	46%
N Charlotte	153	65	\$61,960	\$953	42%
NE Detroit	48	17	\$17,305	\$1,018	35%
Houston	92	30	\$25,399	\$847	33%
Austin	100	27	\$21,616	\$801	27%

Notes:

- 1) “Lighting Quotes” refers to each separate estimate or bid for a prospective Lighting Job to potential customers.
- 2) “Lighting Jobs” refers to each separate lighting job, project or products and services package purchased by customers.
- 3) “Lighting Sales” refers to the total revenue derived from the sale of lighting products and services. This number does not reflect any standard operational expenses, including ongoing royalties and operations and products costs and fees, or profit or margins calculated by comparing sales to expenses.
- 4) “Average Lighting Job Size” the total amount of Lighting Sales divided by the Lighting Jobs provided to customers.
- 5) “Lighting Closing Rate” is the number of Lighting Jobs actually purchased by customers divided by the number of Lighting Quotes given to prospective customers.

[Remainder of page intentionally left blank]

Total Gross Sales: All Services

Affiliate	Total 2020 Gross Sales
Columbus	\$2,081,249

Franchisees	Total 2020 Sales
N Charlotte	\$1,088,757
Raleigh	\$875,521
Omaha/Lincoln	\$822,844
Cincinnati	\$803,614
Sarasota	\$404,419
SE Denver	\$319,363
NE Detroit	\$302,557
Houston	\$271,011
Lexington	\$216,040
Austin	\$202,090
Littleton	\$95,206

Notes:

“Total 2020 Gross Sales” refers to the Gross Sales of franchised business in the 2020 calendar year. See definition of Gross Sales in Total Sales: Subsets chart above.

[Remainder of page intentionally left blank]

Section 2. 2020 Average and Median Franchisee Sales and Performance Data

The following tables show the average, median, and high-low range for closing rate, job size, quotes, jobs, and gross margin for the 11 franchised outlets that operated for the entire 2020 calendar year. All of the tables, except for gross margin, separate the data by service type – painting, gutter installation, and holiday lighting - followed by the total for all services. See the notes following the tables for additional information.

Closing Rate
2020 Calendar Year

Franchised Outlets

Closing Rate	Painting	Gutters	Lighting	All
High	39%	67%	80%	40%
Low	18%	0%	27%	20%
Median	29%	26%	47%	31%
Average	29%	25%	44%	30%

Notes:

- 1) The “Closing Rate” is the number of the respective Jobs (Painting, Gutters, Lighting) actually purchased by customers divided by the number of the respective Quotes (Painting, Gutters, Lighting) given to prospective customers.
- 2) 7 out of 11, (63%) of Franchisees actually attained or surpassed the stated Average Painting Closing Rate.
- 3) 6 out of 11 (54%) of Franchisees actually attained or surpassed the stated Average Gutters Closing Rate.
- 4) 7 out of 11 (63%) Franchisees actually attained or surpassed the stated Average Lighting Closing Rate.
- 5) 7 out of 11 (63%) of Franchisees actually attained or surpassed the stated Average All Closing Rate.

Job Size
2020 Calendar Year

Franchised Outlets

Job Size	Painting	Gutters	Lighting	All
High	\$5,310	\$5,050	\$2,570	\$5,024
Low	\$2,268	\$1,082	\$801	\$1,656
Median	\$3,321	\$2,380	\$1,065	\$2,751
Average	\$3,414	\$2,512	\$1,052	\$3,004

Notes:

- 1) The “Job Size” the dollar amount for each respective project or products and services package (Painting, Gutters, Lighting) provided to customers.

- 2) 5 out of 11 (45%) of Franchisees actually attained or surpassed the stated Average Painting Job Size.
- 3) 4 out of 11 (36%) of Franchisees actually attained or surpassed the stated Average Gutters Job Size.
- 4) 6 out of 11(54%) of Franchisees actually attained or surpassed the stated Average Lighting Job Size.
- 5) 5 out of 11 (45%) of Franchisees actually attained or surpassed the stated Average All Job Size.

Number of Quotes and Jobs
2020 Calendar Year

Franchised Outlets

Quotes	Painting	Gutters	Lighting	All
High	886	211	153	1,053
Low	68	1	3	83
Median	411	14	48	527
Average	448	34	58	539

Jobs	Painting	Gutters	Lighting	All
High	299	42	65	325
Low	21	0	2	27
Median	93	4	27	139
Average	130	8	25	163

Notes:

- 1) Each “Quote” refers to each separate estimate for the respective project or products and services package (Painting, Gutters, Lighting) provided to potential customers.
- 2) Each “Job” refers to each respective separate project or products and services package (Painting, Gutters, Lighting) provided to customers.
- 3) 4 out of 11 (36%) of Franchisees actually attained or surpassed the stated Average number of Painting Quotes.
- 4) 4 out of 11 (36%) of Franchisees actually attained or surpassed the stated Average number of Painting Jobs.
- 5) 3 out of 11 (27%) of Franchisees actually attained or surpassed the stated Average number of Gutters Quotes.
- 6) 3 out of 11 (27%) of Franchisees actually attained or surpassed the stated Average number of Gutters Jobs.
- 7) 4 out of 11 (36%) of Franchisees actually attained or surpassed the stated Average Lighting Quotes.
- 8) 6 out of 11 (54%) of Franchisees actually attained or surpassed the stated Average Lighting Jobs.

9) 5 out of 11 (45%) of Franchisees actually attained or surpassed the stated Average of All Quotes.

10) 4 out of 11 (36%) of Franchisees actually attained or surpassed the stated Average of All Jobs.

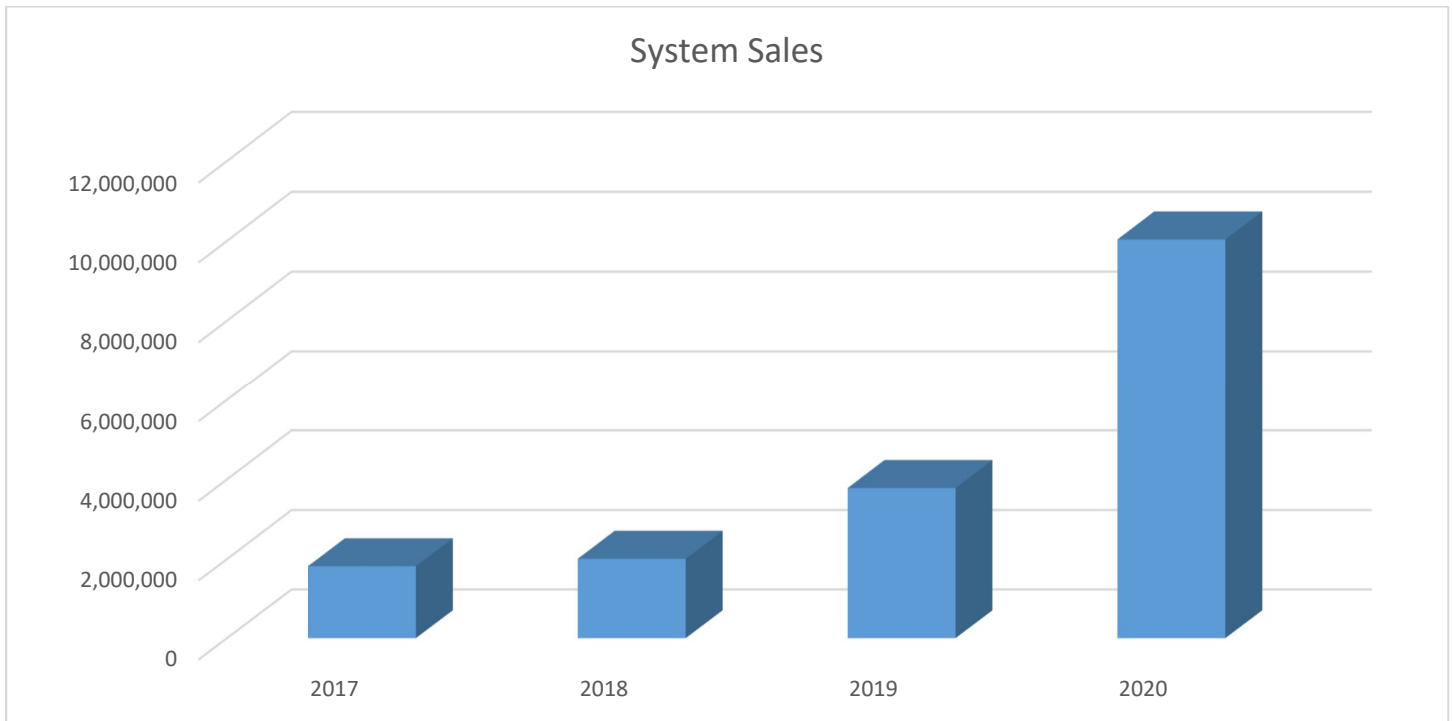
[Remainder of page intentionally left blank]

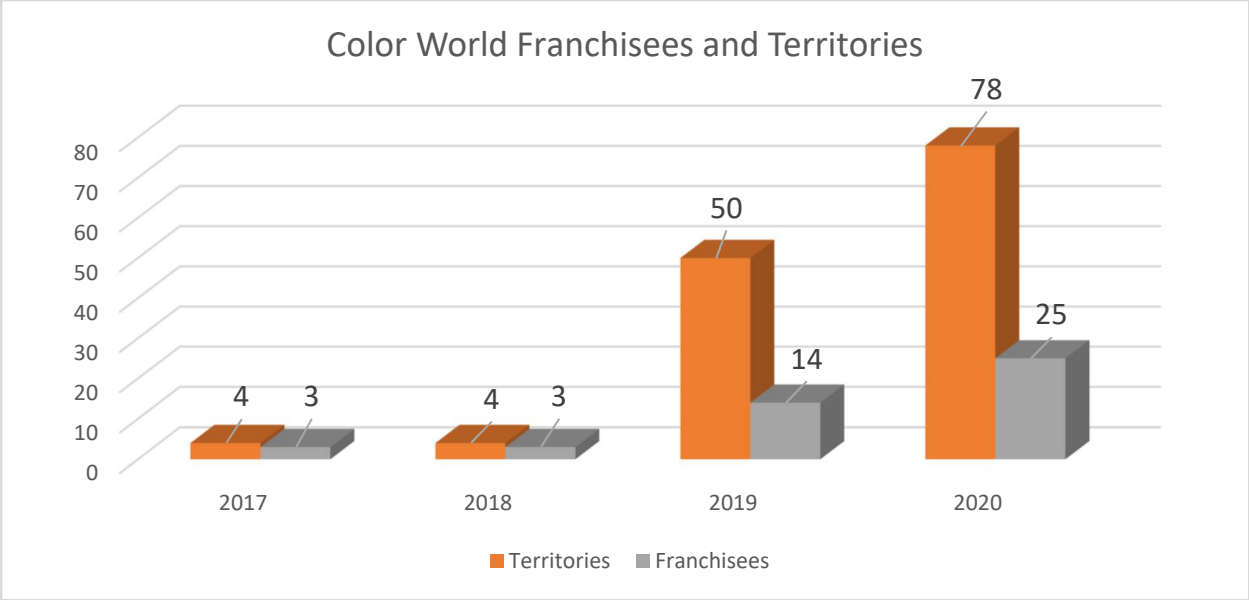
Section 3. 2020 Systemwide Sales

The following table and charts show 2020 systemwide Gross Sales for the 2017, 2018, 2019, and 2020 calendar years. The first table also shows the year-over-year percent increase in Gross Sales and the number of franchised territories and number of franchisees as of the end of each calendar year.

The table below sets forth the aggregate Gross Sales (“**System Sales**”) reported to us from all Color World Housepainting franchisees whose Color World Housepainting Franchised Businesses were operational for any part (even as little as one month, if the franchisee completed initial training in December of their initial year of operations) of the fiscal year ended December 31, 2017 through the fiscal year ended December 31, 2020. The same information is presented in the bar graph following the table. See above in this Item 19 for the definition of “Gross Sales.” Section 3 includes the Affiliate Owned Outlet.

Color World System Gross Sales from 2017 - 2020 Years Ending December 31					
Year	System Gross Sales	YOY % Sales Increase	Number of Territories as of Calendar Year End	Number of Affiliate-Owned Outlets as of Calendar Year End	Number of Franchisees as of Calendar Year End
2017	1,819,646		5	1	3
2018	2,007,966	10.3%	5	1	3
2019	3,781,671	88.3%	51	1	14
2020	10,036,106	165.4%	79	1	25





[Remainder of page intentionally left blank]

Section 4. 2020 Profit and Loss Statement for Our Affiliate

The following table contains an historical financial performance representation for Color World Housepainting, Inc., our Predecessor's affiliate, for its 2020 calendar year operations. The representation is in the form of a profit & loss statement. The affiliate operated for the entire 2020 year in Columbus, Ohio in an area about the size of 3 standard franchise territories. See the notes following the table for additional information.

Profit and Loss for Affiliate Outlet 2020 Calendar Year

Income	TOTAL	% of Income
Total Income (1)	\$2,076,720	100%
Cost of Goods Sold	TOTAL	% of income
Subcontractors (2)	\$885,667	42.65%
Job Materials	\$57,116	2.75%
Total COGS	\$942,783	45.40%
Gross Profit	\$795,652	54.60%
Expense	TOTAL	% of income
Staff Costs (3)	\$254,738	12.27%
Marketing	\$176,957	8.52%
Bank Fees/Credit Card Processing	\$18,116	0.87%
Insurance (4)	\$12,962	0.62%
Office Expenses	\$7,268	0.35%
Utilities	\$3,124	0.15%
Taxes and Licenses	\$2,513	0.12%
Professional Fees (5)	\$1,294	0.06%
6% Royalty Fees (6)	\$124,306	6.00%
2% Advertising Fee (6)	\$41,534	2.00%
Operating and Production Fee (6)	\$19,800	0.95%
Total of Expenses (7)	\$662,910	31.92%
Net Profit (8)	\$471,027	22.68%

Notes:

- 1) "Total Income" means all revenue derived from the sale of products and services through the Affiliate outlet. These income sources included residential and commercial painting (both interior and exterior), gutter installation, holiday lighting, exterior and interior repairs, and power washing.
- 2) "Subcontractors" refers to the subcontracted labor for certain jobs. Job Materials includes paint product costs.
- 3) "Staff Costs" includes \$170,574 for salaries and wages for the office, which included office manager, production manager, sales representative, and a painter/warranty manager. In addition, \$84,164 of these Staff Costs were for seasonal employees hired to install holiday lighting.
- 4) "Insurance" includes liability and automobile insurance.
- 5) "Professional Fees" includes accounting and tax preparation.
- 6) The royalty fees (6% of Total Income), advertising fees (2% of Total Income) and operating and production fees (\$1,650 per month) are expenses that a franchisee will incur, but they are imputed for the Affiliate, because the Affiliate did not actually incur or pay these expenses. The Affiliate's actual profits were higher before factoring in the franchise-related expenses. You will be expected to pay the Royalty Fees, Advertising Fees, and Operating and Production Fees required in your franchise agreement.
- 7) The Affiliate paid the same rates as our franchisees for equipment, inventory, and other items for which our Predecessor received a rebate from the relevant vendors. The affiliate did not receive a discount or rebate or other financial benefit from its purchases. Excluded from expenses are office and warehouse expenses not ordinarily attributable to a franchised business because we strongly suggest that you operate out of a home office. These expenses included rent, utilities and other similar operational expenses attributed to an office and warehouse. The amount of the rebate that our Predecessor received in 2020 is disclosed in Item 11, above.
- 8) "Net Profit" means the Total Income minus the Total Expenses.

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

Written substantiation for this financial performance representation is available to you upon reasonable written request.

Other than the preceding financial performance representations, Color World New Franchise Systems, LLC does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Michael Pearce, Color World New Franchise Systems, LLC, 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046, 410-740-1900, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary
For Years 2018 to 2020

Outlet Type	Year ⁽¹⁾	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised ⁽²⁾	2018	4	4	0
	2019	4	50	+46
	2020	50	78	+28
Company Owned ⁽³⁾	2018	1	1	0
	2019	1	1	0
	2020	1	1	0
Total	2018	5	5	0
	2019	5	51	+46
	2020	51	79	+28

Notes to Table 1:

- (1) All numbers are as of December 31 of each year. Our fiscal year end is December 31. As described in Item 1, we became the franchisor of the Color World Housepainting system in January 2022. For each Table in this Item 20, the information relating to the years 2018-2020 is from our Predecessor.
- (2) The figures are for the number of territories in operation at the start and end of each year. Each territory has a separate franchise agreement. As of December 31, 2020, our Predecessor had 25 franchisees in operation; the number of territories in operation for each franchisee is shown in Exhibit F. See Table 5 below regarding territories that were not yet in operation under Franchise Agreements that had been signed as of year-end.
- (3) The “company-owned” outlet was operated in 2018-2020 by our Predecessor’s affiliate, Color World Housepainting, Inc., and is now operated by our affiliate, Color World New Housepainting, LLC. The affiliate operates in an area about the size of 3 standard franchise territories.

Table No. 2
Transfers of Outlets from Franchisee to New Owners (other than the Franchisor)
For Years 2018 to 2020

State	Year	Number of Transfers ⁽¹⁾
Nebraska	2018	0
	2019	0
	2020	4
Total	2018	0
	2019	0
	2020	4

(1) The figures are for the number of territories transferred in each year. As of December 31, 2020, our Predecessor had 25 franchisees in operation; the number of territories in operation for each franchisee is shown in Exhibit F.

Table No. 3
Status of Franchise Outlets For Years 2018 to 2020

State	Year	Outlets at Start of Year*	Outlets Opened*	Terminations	Non-Renewals	Reacquired by Company	Ceased Operations For Other Reasons	Outlets at End of Year*
Alabama	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	3	0	0	0	0	3
California	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	3	0	0	0	0	3
Colorado	2018	0	0	0	0	0	0	0
	2019	0	6	0	0	0	0	6
	2020	6	3	0	0	0	0	9
Florida	2018	0	0	0	0	0	0	0
	2019	0	5	0	0	0	0	5
	2020	5	0	0	0	3	0	2
Georgia	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	6	0	0	0	0	6

State	Year	Outlets at Start of Year*	Outlets Opened*	Terminations	Non-Renewals	Reacquired by Company	Ceased Operations For Other Reasons	Outlets at End of Year*
Illinois	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	3	0	0	0	0	3
Indiana	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	5	0	0	0	0	5
Kentucky	2018	1	0	0	0	0	0	1
	2019	1	0	0	0	0	0	1
	2020	1	3	0	0	0	0	4
Michigan	2018	0	0	0	0	0	0	0
	2019	0	3	0	0	0	0	3
	2020	3	0	0	0	0	0	3
Nebraska	2018	0	0	0	0	0	0	0
	2019	0	4	0	0	0	0	4
	2020	4	0	0	0	0	0	4
New York	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	5	0	0	0	0	5
North Carolina	2018	0	0	0	0	0	0	0
	2019	0	14	0	0	0	0	14
	2020	14	0	0	0	0	0	14
Ohio	2018	3	0	0	0	0	0	3
	2019	3	0	1	0	0	0	2
	2020	2	0	0	0	0	0	2
South Carolina	2018	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
	2020	0	2	0	0	0	0	2
Texas	2018	0	0	0	0	0	0	0
	2019	0	13	0	0	0	0	13
	2020	13	3	0	0	0	3	13
Washington	2018	0	0	0	0	0	0	0
	2019	0	2	0	0	0	0	2
	2020	2	0	0	0	0	2	0
Total	2018	4	0	0	0	0	0	4
	2019	4	47	1	0	0	0	50

State	Year	Outlets at Start of Year*	Outlets Opened*	Terminations	Non-Renewals	Reacquired by Company	Ceased Operations For Other Reasons	Outlets at End of Year*
	2020	50	36	0	0	3	5	78

* The “outlet” figures are for the number of territories opened or in operation at year-end. Each territory has a separate franchise agreement. As of December 31, 2020, our Predecessor had 25 franchisees in operation; the number of territories in operation for each franchisee is shown in Exhibit F.

**Table No. 4
Status of Company-Owned Outlets For Years 2018 to 2020**

State	Year	Outlets at the Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Ohio	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1
Total	2018	1	0	0	0	0	1
	2019	1	0	0	0	0	1
	2020	1	0	0	0	0	1

- (1) The company-owned outlet in Ohio was operated in 2018-2020 by our Predecessor’s affiliate, Color World Housepainting, Inc., and is now operated by our affiliate, Color World New Housepainting, LLC. The affiliate operates in an area about the size of 3 standard franchise territories.

**Table No. 5
Projected New Franchised Outlets as of December 31, 2020**

State	Franchised Agreements Signed But Not Opened ⁽¹⁾	Projected New Franchised Outlets in the next Fiscal Year ⁽²⁾	Projected New Company-Owned Outlets in the next Fiscal Year
Florida	0	1	0
Texas	1	1	0
Total	1	2	0

Notes:

(1) This column refers to the number of territories that franchisees committed to open, but had not yet opened, under Franchise Agreements signed on or before December 31, 2020.

(2) This column refers to the number of territories that we expect to be covered by new Franchise Agreements signed in 2021.

Attached as Exhibit F is a list of our franchisees, the number of franchises each franchisee owns, and the addresses and telephone numbers of their business offices as of December 31, 2020.

Exhibit G contains the name, city and state, and the current business telephone number (or, if unknown, the last known home telephone number) of the franchisees who ceased to do business, had a territory terminated, cancelled, not renewed, or who otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during 2020. Exhibit G also lists the franchisees who had not communicated with us or our Predecessor in the past 10 weeks prior to the issuance date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During our Predecessor's last three fiscal years, some current or former franchisees signed confidentiality clauses with our Predecessor. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us or our Predecessor. 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.

We do not have any trademark specific franchisee associations that we sponsor or that has requested to be included in our Franchise Disclosure Document.

ITEM 21 **FINANCIAL STATEMENTS**

Exhibit I to this disclosure document contains the following:

1. The audited consolidated financial statements of our affiliate, Authority Brands, Inc. (formerly known as Villa BidCo, Inc.), and subsidiaries as of and for the years ended December 31, 2020 and December 31, 2019, which comprise the consolidated balance sheets as of December 31, 2020 and 2019 and the related consolidated statements of comprehensive loss, of changes in stockholder's equity and of cash flows for the years then ended.
2. The audited consolidated financial statements of our affiliate, Authority Brands, Inc. (formerly known as Villa BidCo, Inc.), and subsidiaries as of December 31, 2018 and for the period December 31, 2017 through September 20, 2018 (Predecessor) and the period September 21, 2018 through December 31, 2018 (Successor).
3. Authority Brands, Inc.'s unaudited consolidated balance sheet as of September 30, 2021 and unaudited consolidated statement of comprehensive loss for the period ending September 30, 2021.

Our separate financial statements are not included in this disclosure document. Should we fail to fulfill our duties and obligations to our franchisees under their franchise agreements, Authority Brands, Inc.

absolutely and unconditionally guarantees to assume those duties and obligations. A copy of the Guarantee of Performance by Authority Brands, Inc. is included in Exhibit I.

ITEM 22
CONTRACTS

The following agreements are attached to this disclosure document:

- Exhibit A Franchise Agreement (including the following attachments: Data Sheet, Brand Appendix, Confidentiality and Non-Compete Agreement, Telephone Number and Internet Agreement, and EFT Agreement)
- Exhibit B Promissory Note, Guaranty and Security Agreement
- Exhibit C Renewal Addendum
- Exhibit D Sample of General Release
- Exhibit K State-Specific Disclosures and Contract Addenda

We also require that you fill out a Questionnaire before signing an agreement with us. The Questionnaire is in Exhibit E.

ITEM 23
RECEIPTS

The last two pages of this disclosure document are receipt pages. Please sign, date, and detach the last two pages and return one signed copy to us.

EXHIBIT A

FRANCHISE AGREEMENT AND RELATED AGREEMENTS



FRANCHISE AGREEMENT

Franchise ID #

Franchisor:	Color World New Franchise Systems, LLC
Agreement Date:	
Full Legal Name of Franchisee:	
Individual Owner Name(s):	
Approved Location:	

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
1. DEFINITIONS.....	1
2. FRANCHISE GRANT AND TERRITORIAL PROTECTION.....	3
3. AGREEMENT TERM.....	5
4. PRE-OPENING	5
5. TRAINING	6
6. OPERATION OF THE FRANCHISED BUSINESS	7
7. FEES	11
8. REPORTS, FINANCIAL STATEMENTS, CUSTOMER DATA, AND DATA SECURITY	14
9. INSURANCE.....	17
10. MARKETING AND ADVERTISING	17
11. LICENSED MARKS AND COPYRIGHTS	20
12. BRAND STANDARDS MANUALS	21
13. CONFIDENTIAL INFORMATION	21
14. RESTRICTIONS ON COMPETITION.....	22
15. SALE OR ASSIGNMENT	23
16. DEFAULT AND TERMINATION.....	26
17. OBLIGATIONS UPON TERMINATION OR EXPIRATION.....	30
18. BUSINESS ENTITY REQUIREMENTS	32
19. RENEWAL.....	32
20. INDEMNIFICATION.....	34
21. NOTICES.....	34
22. GENERAL PROVISIONS	34
23. DISPUTES.....	36

PERSONAL GUARANTEE AND SPOUSE ACKNOWLEDGMENT

APPENDIX A – DATA SHEET

APPENDIX B – BRAND APPENDIX

APPENDIX C – CONFIDENTIALITY AND NON-COMPETE AGREEMENT

APPENDIX D – TELEPHONE NUMBER AND INTERNET AGREEMENT

APPENDIX E – ELECTRONIC FUND TRANSFER AUTHORIZATION FORM

FRANCHISE AGREEMENT

This Agreement is between the company identified as “Franchisor” on the cover page (“we”, “us” or “Franchisor”), and the individual or company identified as “Franchisee” on the cover page (“you” or “Franchisee”). If Franchisee is a company, the term “Owners” means the individual(s) identified on the Data Sheet as the owners of the Franchisee, plus any other individual(s) we may approve in the future to hold an interest in the Franchisee.

1. DEFINITIONS

The terms defined in this Section 1 have the meanings set forth below. Other capitalized terms used in this Agreement are defined where they first appear within the text.

1.1. “Agreement Date” means the Agreement Date shown on the cover page of this Agreement.

1.2. “Approved Location” means the street address or specific site that we have approved for your business premises, as shown on the cover page of this Agreement. If the Approved Location has not been determined when we sign this Agreement, you are required to obtain our approval of a location within three (3) months after signing this Agreement. Once we approve the location, we will insert the street address or specific site on the cover page of this Agreement or otherwise confirm the approved address to you in writing.

1.3. “Brand” means the brand identified on the cover page of this Agreement.

1.4. “Brand Appendix” means Appendix B to this Agreement, which sets out certain business terms specific to the Brand.

1.5. “Brand Fund” means the fund to which you will contribute to support development and recognition of the Brand, as more fully described in Section 10.2, and may be referred to by names other than the “Brand Fund.”

1.6. “Brand Standards” means our required and recommended specifications, standards, policies and procedures for products, services, image, and operations of Franchised Businesses.

1.7. “Brand Standards Manuals” means, collectively, the materials and content we have developed relating to the establishment and operation of Franchised Businesses, consisting of one or more manuals, handbooks, and training materials regardless of format, including electronic files, video or audio recordings, and other media or otherwise communicated in writing to you, all of which we can modify, replace and supplement. The Brand Standards Manuals are sometimes referred to as the “Operations Manuals.”

1.8. “Confidential Information” means all knowledge and data not generally known to the public, whether or not constituting trade secrets, that we disclose to you and/or the Owners or that you obtain by virtue of this Agreement or any activities under this Agreement, including but not limited to: (i) methods, techniques, specifications, standards, policies, procedures, and design and layout plans relating to the operation of Franchised Businesses; (ii) future marketing plans and promotional programs for the Brand; (iii) customer data and other information concerning consumer preferences; (iv) inventory requirements and specifications; (v) sales, operating results, financial performance and other financial data of Franchised Businesses; (vi) the contents of the Brand Standards Manuals and our training programs; (vii) vendor lists, terms of purchase, and other information concerning the selection and sourcing of products, services,

technology, equipment and supplies; (viii) marketing studies, surveys, and cost studies; (ix) research and development, test results, and feasibility studies; and (x) business plans and non-public financial information of or about us and our affiliates.

1.9. “Data Sheet” means Appendix A to this Agreement, which collects certain details specific to Franchisee and this Agreement.

1.10. “Designated Vendor” means a particular manufacturer, wholesaler, distributor or other source that we designate for particular products or services, which may be a third party, us, or our affiliate.

1.11. “Equipment Package” means the list of equipment and accessories that we prescribe for Franchised Businesses as of the time you are preparing to open.

1.12. “Franchised Business” means the business that you operate under this Agreement at and from the Approved Location. “Franchised Businesses” means your Franchised Business plus all other businesses that we have authorized to operate under the Marks and System by means of a valid franchise agreement.

1.13. “Gross Revenue” means all revenue from the sale of products and services and all other income of every kind related to the Franchised Business, whether for cash, credit, trade, barter or other value and regardless of collection in the case of credit and even if you have contracted with third parties to provide certain of the services, less any bona fide refunds given to customers in the ordinary course of business. Gross Revenue also includes amounts billed to insurance or government programs. You agree that “Gross Revenue” includes all revenue related to the sale of any products and the performance of any services (whether or not the products or services are approved by Franchisor) that are provided using any portion of the Franchised Business in any manner, including the Marks (such as service vehicles, invoices, and uniforms bearing the Marks), the System, Confidential Information, any of the employees of the Franchised Business, or the telephone number of the Franchised Business. “Gross Revenue” also includes any proceeds of business interruption insurance. “Gross Revenue” shall not be reduced on account of any fees or commissions you pay to third parties who refer customers. “Gross Revenue” does not include any sales taxes or other taxes you collect from customers and pay directly to the appropriate taxing authority. We reserve the right to modify our policies and practices regarding revenue recognition, revenue reporting, and the inclusion or exclusion of certain revenue from “Gross Revenue” as circumstances, business practices, and technology change.

1.14. “Improvement” means any change, idea, innovation, concept (including any advertising slogan or idea), product, process, or improvement that may enhance or improve the System.

1.15. “Key Person” means the individual who is responsible for the day-to-day operational performance of the Franchised Business and who has the authority to bind Franchisee in all decisions regarding the Franchised Business. The initial Key Person is named in the Data Sheet.

1.16. “Marks” means the logo shown on the cover page of this Agreement and all other trademarks, service marks, logos, and commercial symbols that we expressly designate for use in connection with the System.

1.17. “Opening Deadline” means the date specified in the Data Sheet by which you are required to have the Franchised Business open and operating.

1.18. “Proprietary Products” means products bearing the Marks and/or prepared using formulations and/or methods of preparation developed by or for Franchisor. They may include apparel,

accessories, and other products sold or used in the Franchised Business. We have the right to modify, discontinue, substitute, and/or add items to the Proprietary Products from time to time in our sole discretion.

1.19. “System” means the know-how and system of operation developed for the Brand and owned by Franchisor. The distinctive elements of the System include, but are not limited to: the products and services offered; customer service standards; the warranty program, if applicable; standards and specifications for equipment, technology, supplies, and operations; our advertising and promotional programs and marketing techniques; the exterior and interior design, décor, color scheme, fixtures, and furnishings of the business premises; and the accumulated experience reflected in our Brand Standards Manuals, training program, and instructional materials.

1.20. “Territory” means the geographic area defined in the Data Sheet and/or in a map attached to the Data Sheet.

2. FRANCHISE GRANT AND TERRITORIAL PROTECTION

2.1. Right Granted. We grant you the right, and you undertake the obligation, on the terms and conditions of this Agreement, to establish and operate one (1) Franchised Business at the Approved Location only, and to use the Marks and the System only in connection with the Franchised Business, and only within the Territory. You agree to operate the Franchised Business for the full Agreement term specified in Section 3.

2.2. Territorial Protection. While this Agreement is in effect, and provided that you are not in default beyond any applicable cure period, we will not operate a business under the Marks and the System in the Territory or authorize others to operate Franchised Businesses within the Territory, except as permitted under Sections 2.3, 2.4 and 2.5 below. This does not prohibit us from advertising or soliciting employees or independent contractors in your Territory.

2.3. Rights Reserved. We and our affiliates retain all rights not expressly granted to you, including the rights (despite anything to the contrary in Section 2.2 and regardless of the proximity to or effect on the Franchised Business):

2.3.1 To establish, operate, franchise, and license others to operate businesses under the Marks at any location outside of the Territory;

2.3.2 To operate a business under the Marks inside the Territory if: (i) Franchisor (or its affiliate) is operating a business under the Marks in the Territory as of the Agreement Date; or (ii) Franchisor has notified Franchisee before Franchisee signed this Agreement that Franchisor (or its affiliate) intends to operate a business under the Marks in the Territory;

2.3.3 To use the Marks in other lines of business, anywhere in the world;

2.3.4 To establish and operate, and to grant others the right to establish and operate, similar businesses or any other businesses offering similar or dissimilar products and services through similar or dissimilar channels of distribution, at any locations inside or outside the Territory, under trademarks or service marks other than the Marks.

2.3.5 To develop, manufacture, have manufactured, advertise, market, sell and distribute, at retail or wholesale, and license others to manufacture, sell or distribute, goods or services that are identical or similar to and/or competitive with those provided at the Franchised Business, whether under the Marks or any other name or mark, through dissimilar channels of distribution, including but not limited

to through the Internet, mobile applications, telemarketing, retail stores, and wholesale clubs, or other distribution outlets (other than Franchised Businesses) both inside and outside the Territory;

2.3.6 To establish and operate, and to grant others the right to operate, businesses offering dissimilar products and services both inside and outside the Territory under the Marks; and

2.3.7 To acquire, be acquired by, or merge with other brands or outlets, even if the concepts or outlets are similar to the business operated under the System, and even if they have locations in the Territory. We will also have the right, in our sole discretion, to convert one or more outlets of the acquired, acquiring or merged brand to a Franchised Business within the Territory.

2.4. Activities Outside of the Territory. You may not perform services or sell products related to the Franchised Business outside of the Territory without our prior written consent, which we may give and withdraw as we deem appropriate, and which we may condition on obtaining a separate phone number or other requirements. You may not solicit or advertise to customers outside of the Territory without our permission. “**Solicit**” includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials or any other advertising. If any solicitation of customers within the Territory is in media that will or may reach persons outside of the Territory, you are required to notify us in advance and obtain our consent. If you receive a request for services or products from outside the Territory, you are required to refer that request to the Franchised Business located in the applicable territory (or to Franchisor or its affiliate, if we have not assigned the applicable territory to a Franchised Business). Notwithstanding the foregoing, under certain limited circumstances, Franchisee may process a request from outside of the Territory if the requested service is permitted under our policies as set forth in the Brand Standards Manuals or otherwise designated by Franchisor. If Franchisor permits Franchisee to advertise, solicit, service or sell in areas outside of the Territory that are not serviced by another Franchised Business or by Franchisor or its affiliate, Franchisee is required to comply with all of the conditions and other requirements that we may from time to time specify in the Brand Standards Manuals or otherwise in writing with respect to such activities. We may at any time condition your continued out-of-Territory sales and services on your agreement to purchase the franchise rights for the territory in which the sales and services are being performed. At any time upon our demand or upon notice from us that the territory in question has been assigned to another Franchised Business, Franchisee agrees to immediately cease all activities in that territory and to comply with our procedures for the transition of customer accounts for that territory. Under no circumstances will we be liable to you for violations by other Franchised Businesses of our policies on out-of-Territory sales and services.

2.5. Key Accounts. Franchisor may from time to time enter into agreements to provide services to customers as part of a national, regional or key account program (“**Key Accounts**”) at locations which include locations within the Territory. You agree to accept and perform the terms of such agreements (including, without limitation, special pricing, payment terms, timing of services, and central invoicing) in respect of locations within the Territory. If you refuse to perform the required services or we determine that the Franchised Business is not qualified, interested, able or available to perform the services, you are required to allow either Franchisor’s employee or another franchisee to enter the Territory to perform the required services. In the case of an agreement under which the customer will pay a fixed amount for services at all locations listed in the agreement, we may allocate the fixed amount among the businesses performing the services.

2.6. No Other Sales Channels. You may not offer products or services through any channel other than those we have expressly approved. If you request approval of any other distribution channel or type of outlet, we will consider the factors we deem appropriate, which may include the period of time you have been operating the Franchised Business, your sales volume, whether you have met quality standards

and other benchmarks, and other standards that we may determine. This Agreement does not license you to sell products to any vendor who would in turn sell to consumers. This Agreement does not restrict Franchisor or its affiliates from engaging in, and does not grant you any rights to participate in, any other business concepts of Franchisor or its affiliates other than the Franchised Business.

2.7. Relocation. You may not relocate the Franchised Business without our prior written consent. Any relocation must be to a location within the Territory. Unless otherwise agreed in writing, relocation of the Franchised Business does not change the Territory.

3. AGREEMENT TERM

This Agreement will expire on the anniversary of the Agreement Date specified in the Brand Appendix (the “**Expiration Date**”). You will have an opportunity to renew the franchise rights when the term expires, subject to the terms of Section 19 and provided that you meet the conditions in that Section.

4. PRE-OPENING

4.1. Preparation for Opening. You are required to prepare your Franchised Business and business premises as necessary to conform to the Brand Standards. The Brand Standards may require expenditures for, among other things, structural changes and modification of the premises; new or modified service vehicles, equipment, signs, fixtures and furnishings; interior and exterior remodeling and redecoration; installation of new technology and/or additions and upgrades to existing technology; and resurfacing of parking areas. As applicable, and as may be designated by Franchisor, you are required to order the Equipment Package and all other technology equipment, signs, fixtures, furnishings, inventory, and supplies from a Designated Vendor. If required by the Brand Appendix, you are required to pay us specified fees for outfitting the Franchised Business. You are required to notify us of the anticipated completion date and provide updates as requested during the build-out process. During the pre-opening period, you are required to permit our representatives to inspect the premises at reasonable times. We may specify further details of the build-out process in the Brand Standards Manuals.

4.2. Permits. You are required to obtain all zoning classifications, permits, and clearances (including, as applicable, construction permits, certificates of occupancy, health permits, environmental permits, sign permits, and mall or strip center clearances) that may be required by federal, state, or local law or your landlord for the Franchised Business. You have sole responsibility for operating your Franchised Business in compliance with all permits and laws.

4.3. Pre-Opening Marketing. You are required to conduct pre-opening marketing, as specified in Section 10.3, to attract an initial customer base for the Franchised Business.

4.4. Approval to Open. You agree not to open the Franchised Business for business until we notify you that: (1) all of your pre-opening obligations have been fulfilled; (2) pre-opening training of your personnel has been completed as required by Section 5; and (3) we have been furnished with copies of all certificates of insurance required by Section 9.1.

4.5. Opening Deadline. You are required to open the Franchised Business to the public by the Opening Deadline. If you request an extension of the Opening Deadline, we have complete discretion whether to give an extension. If we agree to an extension, we have the right to charge you an extension fee of up to \$1,000 per month of extension.

4.6. Opening Support. We will provide such opening support and assistance for the Franchised Business as we deem appropriate, at the time(s) and in the manner we determine. If you request opening

support beyond what we customarily furnish to Franchised Businesses, and if we agree to furnish such additional support, then we will have the right to impose a fee, plus expenses, for providing the agreed additional support.

5. TRAINING

5.1. Initial Training. Franchisor will offer, at the time(s) and location(s) selected by Franchisor, a pre-opening training program to Franchisee and to those employees of Franchisee whom Franchisor deems appropriate. The individuals that we designate are required to successfully complete the pre-opening training. We have the right to vary the duration and content of initial training based on the trainee's prior experience in similar businesses. We alone have the right to judge whether a person has successfully completed the training program. Successful completion may require passing tests to establish proficiency in the delivery of services, use of technology and software applications, and other areas we designate. We will have the right to terminate this Agreement under Section 16.1 if, at any time during the pre-opening training program, we conclude in our sole judgment that any person required to attend the pre-opening training program does not possess the skills necessary to properly fulfill and discharge the demands and responsibilities required by the System or this Agreement.

5.2. Additional Training. After the Franchised Business opens for business, we will make available, at the time(s) and location(s) we designate, such other required and optional training programs as we deem necessary and appropriate. For training that we designate as required, the individuals that we designate are required to successfully complete the training.

5.3. Training Methods. We have the right to provide training programs in person, by video, via the Internet, or by other means, as we determine, and the training may be performed by us, our affiliates, or third parties.

5.4. Training Fees. We may charge a training fee: (a) for additional trainees that you request in excess of the maximum number we designate for a training program; (b) if we require remedial training as a result of your failure to comply with our Brand Standards; (c) for re-training persons who are repeating a training program, or their substitutes; and (d) for training programs that we make optional for franchisees.

5.5. Travel Expenses. For all training, including initial training, you are responsible for all travel expenses, living expenses, wages, and other expenses incurred by your trainees. If we conduct training at any location other than our headquarters, you may be required to pay the reasonable travel, meal and lodging expenses of our trainer(s).

5.6. Training Assistance. After the Franchised Business opens, you agree to give us reasonable assistance in training or assisting other franchisees of the Brand. We will reimburse you for your reasonable costs and expenses in providing such assistance.

5.7. Employee Training. Except for the training in Sections 5.1 and 5.2, you are responsible for all employee training for the Franchised Business.

5.8. Annual Conference; Non-Attendance Fee. The Key Person and/or Owners of Franchisee, as designated by us, are required to attend an annual conference of franchise owners, if called by us. Franchisee is responsible for the costs of travel and accommodations of its attendees. Franchisor reserves the right to charge a fee for the annual convention. If none of the designated Franchisee representatives attend the annual convention, we may charge Franchisee a non-attendance fee of \$2,000. If the Key Person, Owners, and/or employees of Franchisee, as designated by us, do not attend the annual convention for two (2) consecutive years, you will be in default of this Agreement, and we will have the right to terminate this

Agreement (or, in lieu of termination, increase your royalty fee by one percent (1%) of Gross Revenue under Section 7.6 until you attend the annual convention as designated by us), as well as any other rights and remedies available to us at law or in equity.

6. OPERATION OF THE FRANCHISED BUSINESS

6.1. Compliance with Brand Standards. In order to protect the reputation and goodwill of the Brand and to maintain high standards of operation under the System, you agree to comply strictly with all of our required Brand Standards. You acknowledge that the Brand Standards may relate to any aspect of the appearance, operation, and marketing of the Franchised Business. Any material failure to comply with the required Brand Standards or to pass our inspection will constitute a material breach of this Agreement. However, you acknowledge that we have the right to vary our standards and specifications to accommodate the individual circumstances of different franchisees. Franchisor's specifications do not constitute a warranty or representation, express or implied, as to quality, safety, suitability, fitness for a particular purpose or any matter. We will not be liable to you or others on account of the designation of Brand Standards for the operation of the Franchised Business under the System.

6.2. Management. The Franchised Business is required at all times to be under the day-to-day supervision of the Key Person. We have the right to rely on any statement, agreement, or representation made by the Key Person. If the Key Person leaves your organization, you are required to nominate a replacement within thirty (30) days thereafter. If you have not obtained our approval of a replacement within ninety (90) days, you will be in material default of this Agreement.

6.3. Approved Products and Services. You are required to offer for sale from the Franchised Business all products and services that we designate from time to time as required items. You may also offer for sale any optional products and services that we have approved for sale in the Franchised Business. You are prohibited from offering any unapproved products or services without our prior written consent. You acknowledge that the service system and processes are integral to the System and that failure to adhere to them strictly will constitute a default of this Agreement. You are required to discontinue selling or offering for sale any products or services that we disapprove at any time, in our sole discretion.

6.4. Pricing and Promotional Activities. To the extent permitted by applicable law where the Franchised Business is located, we have the right to establish maximum and/or minimum prices that you are required to follow for products and services sold in the Franchised Business. Subject to applicable law, you are required to participate in and comply with the terms of special promotional activities that we prescribe for Franchised Businesses generally or for Franchised Businesses in specific geographic areas or having particular characteristics. You acknowledge that these activities may include special offers and other pricing promotions. Subject to the limitations in Section 10, you agree to bear your own costs of participating in these activities. You are required to display promotional signs and materials and otherwise participate in the manner we request.

6.5. Telephone Numbers. You are required to obtain one or more separate telephone numbers that are identified with the Franchised Business and no other business. At the termination or expiration of this Agreement, those telephone numbers and any online listings become our property. Simultaneous with signing this Agreement, you agree to sign the Telephone Number and Internet Agreement attached as Appendix D, duly appointing us as attorney-in-fact to effect a transfer to us of the telephone numbers and online listings for the Franchised Business upon expiration or termination of this Agreement. We may require that telephone numbers and electronic identities you use in connection with the Franchised Business be owned and controlled by us or an approved supplier, and that you transfer to an approved call routing and tracking supplier all telephone numbers associated with the Franchised Business.

6.6. Live Voice and Call Center. Telephone calls to the Franchised Business are required to be answered by “live” voices during the hours specified in the Brand Standards Manuals. You may not have calls answered by answering machines, voicemail, or digital assistants. We may require or prohibit forwarding calls to mobile phones. If you do not comply with the “live” voice requirement as stated in the Brand Standards Manuals, we have the right to increase your royalty by one percent (1%) of Gross Revenue, in addition to any other remedies available to us under this Agreement, including default and termination. We also have the right to require you to use a designated call center for the Brand (the “**Call Center**”) for incoming calls. We will charge you a fee for using the Call Center service, whether the service is required or optional. As of the Agreement Date, the Call Center Fee is the amount set forth in the Brand Appendix and is due at the same time as your royalty payments. We reserve the right to increase the Call Center Fee, to charge a minimum fee for this service, and to change the timing of payment of the fee. We also reserve the right to terminate your access to the Call Center or to cancel the Call Center program. We will provide you at least thirty (30) days’ notice prior to terminating the Call Center, modifying the Call Center Fee, or changing the timing of payment.

6.7. Technology Requirements. We have the right to specify the point-of-sale (POS) system, customer relationship management (CRM) system, back-office system, software applications, audio/visual equipment, security systems, electronic payment devices, and other hardware, software, and network connectivity for the Franchised Business. You agree to sign any standard license agreement or user agreement that may be required to use a system that we specify. You are required to use the required systems for service calls, managing inventory, reporting Gross Revenue and other information, training personnel, and other functions as we specify from time to time. You are required to ensure that your employees are adequately trained to use the systems and that they follow applicable policies. You are required to maintain your technology systems in good working order at all times and promptly install upgrades, additions, modifications, substitutions and/or replacements of hardware, software, connectivity, power, and other system components as necessary. You agree to bear all costs of acquisition, installation, use, maintenance and upgrade of your systems.

6.8. Franchisee Portal. We have the right (but no obligation) to establish one or more websites and/or mobile applications that are open only to franchisees (the “**Franchisee Portal**”). If applicable, you are required to use the Franchisee Portal for reporting, training, ordering merchandise and supplies, or other purposes as we direct.

6.9. Payment Systems and Customer Retention Programs. You are required to participate in programs relating to gift cards, gift certificates, stored value cards, online or mobile coupons or credits, online or mobile ordering systems, and other electronic money programs we prescribe from time to time for Franchised Businesses. Participation includes both issuing program benefits or credits and accepting them for payment by customers, and may require you to purchase additional equipment. We have the right to coordinate the crediting and debiting of funds among Franchised Businesses based on customer purchases and redemption of stored value. You are required to comply with our policies regarding acceptance of payment by credit and/or debit cards, mobile payment systems, and digital coupons, including, for example, minimum purchase requirements and/or surcharges for use of a card. You are required to also participate in any customer loyalty programs we prescribe from time to time. You may not offer your own gift card, electronic money, or loyalty program for the Franchised Business without our prior written approval. You acknowledge that payment systems and loyalty programs may require you to obtain new hardware, software, equipment and training at your own expense.

6.10. Sourcing. We have the right to require that all equipment, technology, inventory, supplies, vehicles, signs, furnishings, fixtures, décor items, retail merchandise, payment systems, and other products and services that you purchase for use or resale in the Franchised Business: (a) meet specifications that we establish from time to time; and/or (b) be purchased only from vendors that we have expressly approved;

and/or (c) be purchased only from a single source (which may include us or our affiliates) at the then-current price. To the extent that we establish specifications, require approval of vendors, or designate specific vendors for particular items, we will notify franchisees via the Brand Standards Manuals or otherwise. We and our affiliates will earn revenue and profits on sales that we make directly to you. We may negotiate purchasing arrangements under which vendors agree to make goods or services available to Franchised Businesses on specific terms. You agree to participate in and abide by the terms of any vendor purchase program established by Franchisor. Subject to applicable law, we may earn money in the form of rebates, licensing fees, administrative fees, commissions, or other payments from vendors based on your purchases. Subject to applicable laws and our arrangements with the vendors, we have no obligation to remit the funds to you.

6.11. Inventory. You are required to keep a sufficient inventory of products, merchandise, and supplies in the Franchised Business to meet the Brand Standards (or to meet reasonably anticipated customer demand, if we have not prescribed specific standards).

6.12. No Liability for Others' Products. We disclaim all express and implied warranties and all other liability concerning any defects, malfunctions, or other deficiencies in equipment or other products manufactured by anyone other than us or our affiliates. You agree not to make any claims against us or our affiliates with respect to products that we and our affiliates did not manufacture, even if we or our affiliate sold you the product or designated or approved its source. You are required to assert any claims only against the manufacturer of the product, even if you obtained it through us or our affiliate.

6.13. Use of Approved Location; Hours of Operation. You are required to use the Approved Location only for the operation of the Franchised Business, to keep the Franchised Business open and in normal operation for the minimum hours and days specified in the Brand Standards Manuals (subject to applicable laws), and to not use or permit others to use the Approved Location or the Franchised Business for any other purpose or activity without first obtaining our written consent. You acknowledge that we may vary the minimum hours and days of operation by market, type of facility, or other basis.

6.14. Required Equipment, Vehicles, Signs, Furnishings and Other Items. Throughout the Agreement term, you are required to acquire, use and install, as we may require, at your expense, all equipment, vehicles, technology, audio/visual equipment, security features, décor, furnishings, promotional materials, and signs that we require from time to time. You must not install or use in the Approved Location or Franchised Business any equipment, vehicles, technology, furnishings, signs, vehicle graphics, or other items that we have not approved.

6.15. Condition of Business Assets. You are required to keep the equipment, vehicles, signs, and other tangible assets of the Franchised Business in a clean, orderly condition and in excellent repair and condition, at your own expense. At our request, you are required to provide us with copies of any report of inspection of the Franchised Business conducted by a vendor or government agency.

6.16. Condition of Premises. If customers routinely visit the Approved Location, then you are required to periodically remodel your business premises to conform to our then-current Brand Standards for a new Franchised Business. We will not require remodeling more often than once every five (5) years. Remodeling may require expenditures for, among other things, replacement or renovation of furnishings, fixtures, equipment, and signs; interior and exterior painting, flooring and redecoration; and upgrades to technology, restrooms, and customer amenities. The remodeling obligation in this section is separate from and does not limit your obligations in any other Section of this Agreement or in your lease.

6.17. Customer Contracts. In the marketing and operation of the Franchised Business, Franchisee is required to use only the customer contracts, waivers, and/or other forms designated by Franchisor from

time to time, except where Franchisor does not designate such items. Franchisor may provide Franchisee with templates or sample forms of such items, but it is Franchisee's responsibility to have all items which are to be used with prospective and/or actual customers reviewed, at Franchisee's expense, by an attorney licensed to practice law in the state(s) where the Franchised Business is operated, for compliance with all applicable state and local legal requirements. Franchisor makes no warranty or representation that any contracts, waivers and/or other forms and/or materials, whether supplied by Franchisor or otherwise, are in compliance with the laws of any particular state(s) or locality.

6.18. Customer Warranty or Guarantee. If the Brand Standards include a customer warranty or a satisfaction guarantee, you are required to provide the warranty or satisfaction guarantee to each customer and comply with the requirements of the warranty/guarantee program, as set forth in the Brand Appendix and/or the Brand Standards Manuals.

6.19. Performance Requirements. You agree to continuously exert best efforts to promote and enhance the performance of the Franchised Business and the goodwill of the Marks. If minimum performance requirements are set forth in the Brand Appendix (the "**Minimum Performance Requirements**"), you are required to achieve those Minimum Performance Requirements. If you do not achieve the Minimum Performance Requirements, we will have the right to: (i) reduce the size of the Territory; (ii) establish or license a third party(ies) to establish a Franchised Business within the Territory; (iii) require Franchisee to implement a revenue improvement program, as we specify, which may include, among other things, engaging in specified marketing activities, by the conclusion of which Franchisee is required to achieve the Minimum Performance Requirements; or (iv) terminate this Agreement. If we elect the option in clause (iii), your failure to comply with the terms of the revenue improvement program or failure to achieve Minimum Performance Requirements will allow us to terminate this Agreement. You acknowledge that the Minimum Performance Requirements are not a representation or guarantee of any financial results to Franchisee from the exercise of the rights granted in this Agreement.

6.20. Territory Visits and Inspections. You are required to permit our representatives to inspect the operations of the Franchised Business and to enter your business premises during normal business hours to review records, to observe, photograph and record operations, to remove samples of goods, materials and supplies for testing and analysis, and to interview your customers, employees, and vendors. You are required to provide assistance as requested by our representatives. Upon notice from us, you are required to immediately begin any steps necessary to correct deficiencies noted during a Territory visit.

6.21. Brand Standards Assessments. You are required to comply with our Brand Standards monitoring program, at your own expense. The program may include, among other things, customer satisfaction surveys, mystery shopper reports, employee satisfaction and perception surveys, health and safety reviews, and third-party observation of your operations. If you do not achieve the minimum score or standard that we prescribe for a specific Brand Standards category, we may require you and/or your employees to complete additional training at a location we designate, at your expense. If you do not achieve the prescribed minimum score or standard on two consecutive assessments or on three or more assessments in any five (5) year period, we will have the right to terminate this Agreement under Section 16.1.

6.22. Brand Programs. You are required to participate in and comply with any other programs that we prescribe for Franchised Businesses, as specified in the Brand Appendix.

6.23. Employer Responsibilities. You are required to maintain proper staffing in the Franchised Business to meet the Brand Standards. You have sole responsibility for all employment decisions and functions relating to the Franchised Business, including but not limited to decisions related to recruiting, screening, hiring, firing, scheduling, training (other than the training in Section 5), compensation, benefits, wage and hour requirements, recordkeeping, supervision, safety, security and discipline of employees. Any

information we provide about employment matters, whether voluntarily or in response to your request, and whether directly or by means of any technology tools, is a recommendation only and not intended to exercise control over the wages, hours or working conditions of your employees or the means and manner by which they carry out their duties. In addition, we may provide you with access to an independent, third-party employment law hotline (the “Hotline”). You acknowledge that we have no liability with respect to any advice you may receive through the Hotline or otherwise in connection with your use of the Hotline and we may discontinue offering access to the Hotline at any time. You alone will direct and control all employees of the Franchised Business, subject only to the Brand Standards that we prescribe to protect the goodwill associated with the Marks, which may include the requirement of initial and periodic drug testing and background checks. You are required to clearly inform all workers, before hiring and periodically thereafter, that Franchisee, and not Franchisor, is their employer and that Franchisor does not assume and will not accept any employer, co-employer, or joint employer obligations. You agree to indemnify us for any liability, cost, expense, loss or damage, including attorney’s fees and costs, arising from (i) any claim or allegation that Franchisor or any affiliate is the employer, co-employer, or joint employer of Franchisee, its Owners, or any workers in the Franchised Business, and (ii) your use of the Hotline or reliance on any information received during your use of the Hotline.

6.24. Modifications to System. You acknowledge that we can modify the System and the products and services offered by the Franchised Businesses from time to time (such as, but not limited to, by adding, deleting, and changing approved products or services, equipment, operating procedures, and Brand Standards). You agree to comply, at your own expense, with all such modifications, including without limitation any associated replacement or renovation of equipment, remodeling, redecoration, modifications to existing improvements, and structural changes.

6.25. Compliance with Lease. You are required to comply with all terms of the lease or sublease for the Approved Location and all other agreements affecting the operation of the Franchised Business. You are required to use best efforts to maintain a good working relationship with your landlord and refrain from any activity that may jeopardize your right to remain in possession of the Approved Location.

6.26. Compliance with Laws. You are required to operate the Franchised Business in compliance with all applicable municipal, county, state and federal laws, rules, regulations and ordinances, including maintaining all regulatory licenses. Additional details may be set forth in the Brand Appendix. You have sole responsibility for compliance despite any information or advice that we may provide.

6.27. Taxes and Indebtedness. You are required to promptly pay when due all taxes and all accounts and other indebtedness you incur in the operation of the Franchised Business. In the event of any bona fide dispute as to your liability for taxes assessed or other indebtedness, you may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law, but you may not permit a tax sale or seizure or attachment by a creditor against the Franchised Business.

7. FEES

7.1. Franchise Fee. You are required to pay us a non-refundable initial franchise fee in the amount shown in the Data Sheet. The initial franchise fee is due when you sign this Agreement.

7.2. Royalty. Beginning at the earlier of the Opening Deadline or when the Franchised Business opens, you are required to pay us an ongoing royalty fee in the amount shown in the Brand Appendix. Unless we designate a different period, the royalty fee will be paid on the schedule shown in the Brand Appendix.

7.3. Brand Fund Contribution. You are required to contribute to the Brand Fund on an ongoing basis the amount shown in the Brand Appendix. The Brand Fund contribution will be calculated for the same period and paid in the same manner as the royalty fee and will be used as described in Section 10.2.

7.4. Technology Fees. You are required to pay us fees as specified in the Brand Appendix to support development and operation of software, portals, websites, email accounts, mobile applications, social media, and other technology and communications channels. Unless we designate a different period, the technology fees will be paid on the schedule shown in the Brand Appendix. We can revise technology fees at any time on reasonable notice, which need not be more than thirty (30) days.

7.5. Service Deficiency Reimbursements. If a customer of the Franchised Business complains to us that your services were deficient and we determine, after discussion with you, that there is merit to the customer's complaint, we reserve the right to perform or cause to be performed services to the customer's satisfaction or to reimburse the customer for any money the customer may have paid for the deficient services. You are required to promptly reimburse us for any costs we incur to perform the services or to reimburse the customer, upon receipt of an invoice from us.

7.6. Non-Compliance Royalty Rate. If we determine that Franchisee is not in compliance with this Agreement, we are entitled to give notice declaring Franchisee non-compliant. Such notice shall be delivered with sufficient detail to provide Franchisee the opportunity to cure its non-compliance. As of the first Royalty Fee payment due date to occur more than ten (10) days after delivery of the notice of non-compliance by Franchisor, and continuing until the non-compliant condition has been removed, Franchisor shall have the right to assess Royalty Fees at the rate one percent (1%) higher than the rate payable under Section 7.2, in Franchisor's sole and absolute discretion. This right is cumulative of all other rights of Franchisor arising from Franchisee's non-compliance.

7.7. Payment Method. For all amounts payable to us, you are required to use the payment method(s) that we designate from time to time. If we require payment by Automated Clearing House (ACH) or electronic funds transfer, you are required to designate an account at a commercial bank of your choice (the "**Account**") from which we are able to make withdrawals. You agree to complete and submit to us an authorization for Automated Clearing House or other electronic funds transfer in the form attached to this Agreement as Appendix E or such other form as we or your financial institution may require. You agree to maintain sufficient funds in the Account to cover the amounts payable to us. If funds in the Account are insufficient to cover the amounts payable at the time we make our periodic electronic funds transfer, the amount of the shortfall will be deemed overdue. Additionally, if the electronic funds transfer payment request is returned due to insufficient funds, you are required to pay us a fee equal to the greater of: (a) \$50 or (b) the amount the bank charges us due to the insufficient funds. If we permit you to pay with a credit card, you agree to reimburse us for the resulting charges we incur, subject to applicable law.

7.8. Late Reports and Estimated Payments. If Franchisee's Gross Revenue report required by Section 8 is not received when due, (i) all payments owed by Franchisee for such time period shall be deemed overdue until the reports are received by Franchisor, regardless of whether payment was actually made; (ii) Franchisee shall be responsible for applicable late fees and interest under Section 7.9; and (iii) Franchisor will have the right to estimate Gross Revenue (and Franchisee agrees that 15% greater than previously reported Gross Revenue is a reasonable estimate, among other methods to estimate) and to draft from Franchisee's bank account the estimated amount due for royalties, Brand Fund contributions, and any other charges that are calculated based on Gross Revenue. When you provide the delinquent report(s), we will reconcile any difference between the estimated amount and the actual charges due for the period, and, if an overpayment, we will credit you on your next payment obligation to us.

7.9. Interest and Late Fees. If any payment to us is overdue, you are required to pay us, in addition to the overdue amount, interest on the overdue amount from the date it was due until paid, at the rate of 12% per annum or the maximum rate permitted by law, whichever is less. In addition, we will have the right to charge a late fee of \$100 for the second occurrence of a payment or report that is more than thirty (30) days past due, \$200 for the third such occurrence, and \$300 for the fourth and each subsequent occurrence. The late fee is to compensate us for our administrative costs incurred in enforcing your obligation to pay us or submit reports to us.

7.10. Security Interest. To secure payment of: (a) the amounts you owe to us and our affiliates from time to time under this Agreement and under any other agreement between you and us or our affiliates; and (b) the costs and expenses that we and our affiliates incur to collect or attempt to collect amounts due from you and to enforce this Section (together, the “**Obligations**”), you hereby grant us a security interest in all of the assets of the Franchised Business, including but not limited to: (i) all equipment, furnishings, fixtures, motor vehicles, merchandise, inventory, goods and other tangible personal property; (ii) all accounts, accounts receivable, other receivables, contract rights, leases, software, chattel paper and general intangibles; (iii) all instruments, documents of title, policies and certificates of insurance, securities, bank deposits, bank accounts and cash; (iv) all books, records and documents; (v) all permits and licenses for the operation of the Franchised Business; and (vi) all accessions, additions and improvements to, and all replacements, substitutions and parts for, and all proceeds and products of, the foregoing, including proceeds of insurance (collectively, the “**Collateral**”). Franchisee agrees to execute and deliver to Franchisor any other documents reasonably requested by Franchisor to create, maintain, perfect, or assure the priority of the security interest granted above. Franchisee hereby appoints Franchisor as its agent and attorney-in-fact to execute and deliver documents and to take all other actions (to the extent permitted by law) in Franchisee’s name and on Franchisee’s behalf that Franchisor may deem necessary or advisable to create, maintain, perfect, assure the priority of, or foreclose its security interest in and lien on the Collateral. This appointment is coupled with an interest and is irrevocable as long as any of the Obligations remain outstanding.

7.11. No Set-off; Application of Payments. Your obligation for timely payment of the fees in this Agreement is absolute and unconditional. You may not set off, deduct, delay, escrow, or withhold any payment based on our alleged non-performance of obligations, including any money you allege that we or our affiliates owe you or any other claims that you believe you have against us or our affiliates. We can apply payments received from you to royalty fees, Brand Fund contributions, technology fees, purchases from us or our affiliates, interest, late charges, or any other obligation in the order we choose, regardless of any designation you make.

7.12. Taxes. The payments that you are required to make to us must be the gross amount determined according to the applicable section of this Agreement without deduction for any taxes. You will pay all state and local taxes, including, without limitation, taxes denominated as franchise, business, gross receipts, commercial activity, property, ad valorem, sales, use, or excise taxes, that may be imposed on us or you arising out of or related to our receipt or accrual of fees referenced under this Agreement or related agreements, or ownership or use of any property or materials in your Territory in the course of providing services to you under this Agreement. In any case, you will pay to us (and to the appropriate governmental authority) such additional amounts as are necessary to provide us, after taking such taxes into account (including any additional taxes, penalties, interests or expenses), with the same amounts that we would have received or accrued had such withholding or other payment, whether by you or by us, not been required. If you fail to withhold or pay any such obligations to the appropriate government authority, you must indemnify us for any obligations including penalties, interest, and expenses (including legal and accounting fees) resulting from your failure to timely withhold or to pay the taxes.

8. REPORTS, FINANCIAL STATEMENTS, CUSTOMER DATA, AND DATA SECURITY

8.1. Business Records and Reports. You are required to prepare, and to preserve for at least five (5) years from the dates of their preparation, complete and accurate books, records, and accounts, in accordance with generally accepted accounting principles and in the form and manner we prescribe. We may designate the chart of accounts and/or the accounting program or platform that you are required to use. You are required to provide to us upon request all books, records, tax returns, accounting records, and supporting documents relating to the Franchised Business, including but not limited to daily cash reports, cash receipts journals, general ledgers, cash disbursement journals, weekly payroll registers, monthly bank statements, daily deposit slips, canceled checks, credit card statements, business tax returns, personal tax returns for all Owners and guarantors, supplier invoices, balance sheets, income statements, records of promotions and coupon redemptions, and lists of customers (both current and past) serviced by the Franchised Business. Concurrently with each payment of the Royalty Fee, you are required to send us a report of Gross Revenue for the preceding period, and at our request, you are required to send us accounting records, inventory reports, and such other information and supporting records as we may specify. These records are required to be maintained at the Approved Location except as otherwise permitted by Franchisor.

8.2. Financial Statements and Tax Returns. Within fifteen (15) days after the end of each calendar month, you are required to submit a statement of financial condition (a balance sheet) as of the end of the calendar month and a Profit and Loss financial statement for the month and for the fiscal year-to-date. The financial statements are required to be certified as correct and complete by the Key Person. We have the right to require financial statements on a more frequent periodic basis. By May 1st of each year, you are required to submit to us a copy of the federal and state tax returns for the Franchised Business for the prior year.

8.3. Parent and Guarantor Financial Statements. At our request, you agree to furnish an annual statement of financial condition for each individual or corporate guarantor of your obligations to us and, if applicable, for each of Franchisee's direct and indirect corporate parents.

8.4. Access to Your Systems. You are required to give us independent access to your systems and provide us with login credentials if necessary for that purpose. You are required to maintain an electronic connection with us at all times.

8.5. Right to Examine or Audit. We have the right, at any time, to examine and copy, at our expense, the books, records, accounts, and tax returns of the Franchised Business and the personal tax returns of the Owners. We also have the right, at any time, to have an independent audit made of the books and records of the Franchised Business. You are required to cooperate with the persons making the examination or audit on our behalf. If you or we discover at any time, by means of an audit or otherwise, that there has been an underpayment of royalty fees or other amounts due, you are required to promptly pay the amount due, together with applicable late fees and interest. Your payment and our acceptance of the overdue amounts will not constitute a waiver of or prejudice our right to exercise any other remedy in this Agreement, including termination.

8.6. Cost of Examination or Audit. If we perform an examination or audit due to: (i) your failure to submit reports of Gross Revenue or required financial statements, or (ii) your failure to maintain books and records as required, or if (iii) the cumulative Gross Revenue you report for any period of three consecutive months is more than 2% below the actual Gross Revenue for the period as determined by the examination or audit, then you are required to pay us the cost of the examination or audit, including travel and lodging expenses for the examiners or auditors. For purposes of calculating the cost, we will use hourly

rates for our own personnel that are consistent with the rates of mid-level professionals of independent accounting firms.

8.7. Business and Customer Data. In this Section: “**Customer Data**” means Personal Information (as defined below), sales and payment history, and all other information about any person or entity the Franchised Businesses have serviced, wherever stored, including data regarding customers of businesses converted to a Franchised Business, and any other information we may identify in the Brand Standards Manuals; “**Personal Information**” includes any information that, by itself or in conjunction with other information, may be used to specifically identify an individual, such as name, physical address, telephone number, e-mail address, social media accounts, billing and payment history, customer service requests, and any other information as defined in applicable law; and “**Business Data**” means all financial reports, vendor and supplier pricing data, and all other data about the Franchised Businesses other than Customer Data. Franchisee acknowledges and agrees that:

8.7.1 We have the right to independently access all Business Data, wherever maintained. Franchisor also has the right to require Franchisees to deliver Business Data to Franchisor. Franchisor has the right to use (and to authorize others to access and use) Business Data to, among other uses: (i) verify sales; (ii) monitor progress of its franchisees, including compliance with Minimum Performance Requirements; (iii) prepare a financial performance representation for Franchisor’s Franchise Disclosure Document; and (iv) share vendor and supplier pricing data with its affiliates.

8.7.2 Franchisor owns and has the right to access all Customer Data, in whatever form existing, and wherever stored. Because we own the Customer Data, including Personal Information, we can share it with our affiliates, service providers, contracted third parties, or any other person, for any purpose, without notifying or compensating you, both during and after this Agreement, including for the performance of services for Franchisor or its parents or affiliates, as well as for marketing and cross-selling products and services of any of the foregoing parties. Whenever we request, and without request upon termination or expiration of this Agreement, you are required to promptly deliver to Franchisor all Customer Data in your possession or control, without retaining any of Customer Data in any media. You may not sell or disclose to anyone else any Personal Information or aggregated or non-aggregated Customer Data without first obtaining our written consent. In the event of an approved sale of the Franchised Business to a new owner who will continue to operate the Franchised Business under an agreement with us, you may not transfer the Customer Data to the new owner. You agree to install and maintain the security measures and devices necessary to protect Customer Data from unauthorized access or disclosure, including (but not limited to) the minimum measures in Section 8.8.

8.8. Privacy and Security.

8.8.1 You are required to comply with applicable laws and our requirements pertaining to the collection, use, processing, protection, integrity, transfer of, consumer access to, correction of, and deletion of Personal Information. You are required to ensure that you collect Personal Information with express or implied consent of the consumer. Where required by applicable law, you are required to provide a written privacy notice to consumers regarding your collection, use, and disclosure of Personal Information, and are required to comply in all respects with any such written privacy policy. In addition to any restrictions set forth in Section 8.7.2 above, if Franchisor provides Franchisee with Personal Information (i) for the purpose of performing a service on behalf of Franchisor, or (ii) at the direction of the consumer, then the following restrictions shall apply to Franchisee's use of such Personal Information: Franchisee shall not (i) sell, rent, release, disseminate, make available, transfer, or otherwise communicate orally, in writing, or by electronic or other means, Personal Information; (ii) retain, use, or disclose Personal Information for any purpose other than fulfilling the purpose for which it was provided and as permitted in this Agreement, including any restrictions set forth in Section 10; or (iii) retain, use, or disclose Personal

Information outside of the direct business relationship between Franchisor and Franchisee. If Franchisor provides Personal Information to Franchisee, Franchisee certifies that it understands and will comply with the restrictions and obligations under any applicable laws on such Personal Information. Upon Franchisor's request, Franchisee shall provide reasonable assistance to Franchisor in complying with any request from a consumer to exercise rights under any applicable law. Without limiting the foregoing, upon Franchisor's request, Franchisee shall delete some or all Personal Information that Franchisee maintains.

8.8.2 You are required to implement industry-standard administrative, physical, and technical security measures and devices to protect data from unauthorized access, acquisition, loss, destruction, disclosure or transfer. Without limiting the foregoing, you agree to comply with the then-current Payment Card Industry Data Security Standards (PCI/DSS), as those standards may be revised by the PCI Security Standards Council, LLC (see www.pcisecuritystandards.org) or successor organization; to implement the security requirements that the Council (or its successor) requires of a merchant that accepts payment by credit and/or debit cards; and to complete PCI/DSS audits as and when required by the standards. You acknowledge that compliance with PCI/DSS is not a guarantee that a security breach will not occur, and that any losses or expenses we incur as a result of an actual or suspected security breach will be subject to indemnification under Section 20.

8.9. Data and Network Security. You are required to implement industry-standard administrative, physical, and technical security measures and devices to protect data (whether Personal Information, Customer Data, Confidential Information, intellectual property, or other data) and any portion of the Franchised Business from unauthorized access, acquisition, loss, destruction, disclosure or transfer. Franchisee is solely responsible for protecting the Franchised Business from computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, and attacks by hackers and other unauthorized intruders. Franchisee waives any and all claims Franchisee may have against Franchisor as the direct or indirect result of such disruptions, failures or attacks. Franchisee is also required to use best efforts to verify that Franchisee's suppliers, lenders, landlords, customers, and governmental agencies on which Franchisee relies, are reasonably protected. This includes best efforts to secure Franchisee's systems, including, but not limited to, use of firewalls, access code protection, anti-virus systems, and backup systems. In the event of a known or suspected security breach, you agree to notify us promptly and comply with applicable laws and any instructions from us regarding response to the breach.

8.10. Late Report Fee. To encourage prompt delivery of all Gross Revenue reports, Customer Data, Certificates of Insurance, and any other reports or records required or that may be requested by Franchisor under this Agreement, Franchisee shall pay, upon demand, for each report or record that Franchisee fails to deliver when due, a late report fee under Section 7.8.

8.11. Third Party Information. Franchisee hereby authorizes Franchisor and its agents and representatives to make credit and background checks of Franchisee and Owners, and to make inquiries of Franchisee's bank, suppliers, and trade creditors concerning the Franchised Business and hereby directs such persons and companies to provide to Franchisor such information and copies of documents pertaining to the Franchised Business as Franchisor may request.

8.12. Licenses. Franchisee is required to provide to us, within 10 days after you receive them and upon our request, true and correct copies of all state and other licenses related to the Franchised Business and correspondence related to renewals, expirations or denials thereof.

9. INSURANCE

9.1. Basic Requirements. You must maintain the types and minimum amounts of insurance coverage and bonds we specify for Franchised Businesses, at your own expense. The policies must be written by carriers with an industry rating acceptable to us; must name Franchisor, our affiliates, and their respective officers, directors, shareholders, and employees as additional insureds as we direct; and must not have deductibles, exclusions or co-insurance that are unacceptable to us. Each insurance policy must contain a waiver by the insurance company of subrogation rights against Franchisor, its affiliates, and their successors and assigns. You are required to provide us with evidence of all required insurance coverage and payment of premiums at the times we require. At least thirty (30) days before each insurance policy expires, you are required to furnish a copy of renewal or replacement insurance and evidence of payment of the premium. Your obligation to obtain coverage is not limited by insurance that we maintain.

9.2. Changes. We have the right to increase the amounts of insurance coverage required and to require different or additional kinds of insurance. If you do not have the insurance required by this Agreement, we have the right (but no obligation) to obtain insurance on your behalf. If we do so, you agree to reimburse us for the cost of insurance, plus a reasonable fee for our services.

10. MARKETING AND ADVERTISING

10.1. Acknowledgments. You acknowledge the importance of standardization of marketing and advertising programs to the goodwill and public image of the System, the Marks, and Franchised Businesses generally. You further acknowledge our rights in this Section to modify advertising, marketing and public relations programs and the manner in which marketing and advertising funds are used from time to time.

10.2. Brand Fund. You are required to contribute to the Brand Fund as provided in Section 7.3. The purpose of the Brand Fund is to support general recognition of the Franchised Businesses and the Brand. The Brand Fund will operate as follows:

10.2.1 We will have the right to direct all advertising, marketing, public relations, and other activities to promote, develop and enhance the Brand, with final discretion over strategic direction, creative concepts, the materials and endorsements to be used, and the geographic market and media placement. We may use the Brand Fund to pay costs and expenses as we determine in our sole discretion, including but not limited to: production of video, audio, written, online and mobile marketing materials; purchasing promotional items; sponsorship of sporting, charitable, or similar events; design, establishment, and maintenance of websites, social media, mobile applications and other electronic marketing; implementation of advertising programs, in-store promotions, direct mail, and media advertising; marketing and sales training; employing advertising agencies; conducting public relations, consumer research, product development, product testing, and test marketing programs; developing and implementing trade dress and design prototypes; fulfillment charges; salaries and expenses of employees of Franchisor and affiliates working for or on behalf of the Brand Fund; fees of accounting firms, design firms, public relations firms, consultants and ad agencies; legal fees for advertising pre-clearance, defense of false advertising claims, and defense of any claims made regarding our administration of the Brand Fund; other administrative costs and overhead incurred in activities related to the administration and activities of the Brand Fund; and interest on any monies borrowed by the Brand Fund.

10.2.2 We will make available to you any creative materials financed by the Brand Fund. You agree to pay or to reimburse us for any costs to reproduce the materials and/or to customize the materials for your use.

10.2.3 We may seek the advice of franchisees by formal or informal means with respect to the creative concepts and media used for programs financed by the Brand Fund. We retain final authority on all programs financed by the Brand Fund. We have the right to incorporate, replace, change or dissolve the Brand Fund.

10.2.4 We will not be obligated, in administering the Brand Fund, to make expenditures for you that are equivalent or proportional to your contributions, or to ensure that any particular franchisee or Franchised Business benefits directly or pro rata from expenditures by the Brand Fund. You have no right to reduce or withhold contributions based on any alleged lack of benefits to the Franchised Business or based on failure by any other franchisee (with or without our permission) to make its contributions to the Brand Fund.

10.2.5 Nothing in this Agreement is intended or will be construed to impose a trust or fiduciary duty on Franchisor in connection with the Brand Fund, including, but not limited to, with respect to the collection of contributions, maintenance of the bank account, bookkeeping, and disbursement of monies from the Brand Fund. Except as expressly provided in this Section 10.2, we assume no direct or indirect liability or obligation to you with respect to maintenance, direction, or administration of the Brand Fund.

10.3. Pre-Opening and Grand Opening Marketing. You are required to conduct pre-opening and grand opening marketing for the Franchised Business in accordance with a plan that you will create, subject to our approval. You are required to spend at least the amount specified in the Brand Appendix to implement the pre-opening/grand opening marketing plan. We reserve the right to require you to deposit with us the funds required under this Section, which we will distribute as necessary to carry out the approved plan.

10.4. Local Marketing. You are required to spend at least the amount specified in the Brand Appendix for local advertising and promotion of the Franchised Business (“**Local Marketing**”). This is in addition to your obligations under Sections 10.2 and 10.3. We have the right to specify that you pay Local Marketing funds to us, our affiliate, or a third party vendor. We and our affiliates may earn revenue and profits on products or services we provide and may receive rebates, licensing fees, administrative fees, commissions, or other payments on products and services that third party vendors provide. With respect to all Local Marketing funds you pay to a third party, you are required to provide us with monthly Local Marketing expense statements (including receipts supporting the reported expenditures) evidencing compliance with the Local Marketing spend requirements. All Local Marketing is required to be approved by us pursuant to Section 10.6 below. You must be listed in the local Internet based directories and in the Yellow Pages or comparable telephone directory if available, as we designate.

10.5. Joint Marketing Programs and Cooperatives. We have the right to organize: (1) co-marketing programs in which Franchised Businesses and vendors (or other third parties) cross-promote each other’s goods and services; (2) joint marketing efforts in which multiple Franchised Businesses contribute to a specific ad or event; and/or (3) local or regional marketing co-operatives (“**Cooperatives**”) that pool funds of Franchised Businesses in a geographic area or with common characteristics on an ongoing basis to jointly promote the Marks and the Franchised Businesses. The amount we require you to spend or contribute to joint marketing programs and/or a Cooperative will be credited to your obligation for Local Marketing under Section 10.4 or, at our option, to your Brand Fund obligation under Section 7.3, or any combination of the two. You are required to participate in each applicable joint marketing program and comply with the rules of the program. If an existing Cooperative is applicable to your Franchised Business at the time it opens, you are required to immediately become a member of the Cooperative. If a Cooperative applicable to the Franchised Business is established during the term of this Agreement, you are required to become a member no later than thirty (30) days after the date we approve for the Cooperative to begin

operation. We have the right to designate any geographic area or set of common characteristics for purposes of establishing a Cooperative.

10.6. Approval Requirement. All proposed advertising and promotional plans and materials that you intend to use are required to meet our standards and specifications and be submitted to us for approval at least thirty (30) days before their intended use. You are required to use the method(s) we specify to submit materials for approval. You do not have to submit samples of plans or materials that were prepared by us or that we have approved within the last twelve (12) months. Proposed advertising plans or materials are deemed to be disapproved unless we have approved them in writing within fifteen (15) days after your submission of the samples. All advertising and promotion is required to be in the media and of the type and format that we approve, conducted in a dignified manner, and conform to our standards.

10.7. Ownership of Advertising and Promotional Materials. You acknowledge and agree that Franchisor owns all copyrights and other rights to all existing and future advertising and promotional materials that contain any of the Marks or that otherwise relate to the Franchised Business, as well as any products, materials, and rights that result from any advertising, marketing, and promotional programs created, purchased, produced or conducted by or on behalf of Franchisee, Franchisor, the Brand Fund, or any Cooperative, regardless of the party that created such materials. No copyrights or other rights or interest in any tangible or intangible materials or in the Marks will vest in Franchisee as a result of any contribution to, or participation in, any advertising, marketing, or promotional program. If, notwithstanding this provision, Franchisee is deemed to have acquired any copyrights, contractual rights or common law rights in any advertising programs or materials, Franchisee shall execute (and shall cause its employees and agents to execute) such documents or instruments as Franchisor requests to effect assignment of such rights to Franchisor or its affiliate.

10.8. Solicitation of New Franchisees. You acknowledge that we may from time to time develop advertising and promotional materials and displays for the solicitation of franchisees for the Brand. You agree to display all such materials and displays as required by us from time to time.

10.9. Media Appearances. You shall not make any television or radio appearance, or make any statement to any public media, in connection with any Franchised Business or the Brand unless you obtain our prior written approval.

10.10. Electronic Marketing and Electronic Communications. Unless we have agreed to it in writing, you may not use, register, maintain, or sponsor any website, URL, social media, blog, messaging system, email account, user name, text address, mobile application, or other digital, electronic, mobile or Internet presence that uses or displays any of the Marks (or any derivative thereof) or that promotes any products or services of the Franchised Business. The use of any digital or electronic medium constitutes advertising and promotion subject to our approval under Section 10.6. You agree not to post or transmit, or cause any other party to post or transmit, advertisements or solicitations by telephone, e-mail, text message, instant message, website, social media, mobile apps, VoIP, streaming media, or other electronic media that are inconsistent with our brand advertising guidelines and standards. The brand advertising standards may include the use of disclaimers, warnings, and other statements that Franchisor may prescribe. You are responsible for ensuring that your employees do not violate the policies relating to the use of social media. We have the right to require that social media accounts, profiles, pages, and registrations that primarily promote the Marks or the Franchised Business be registered in Franchisor's name. For any such accounts that we permit to be registered in Franchisee's name, you agree to provide us with the current login credentials within five (5) days after opening the account or changing the credentials. You agree that we have the rights to: (i) access any social media accounts to take corrective action if the account or any postings are in violation of our policies; and (ii) take ownership of the accounts on expiration or termination of this Agreement and operate them thereafter as we see fit. We may offer to provide, or may require that

you have, a website for your Franchised Business (which may be structured as a separate page of a consumer website(s) supported by the Brand Fund).

11. LICENSED MARKS AND COPYRIGHTS

11.1. Identification of the Franchised Business; Public Notice of Independent Status. You are required to operate, advertise, and promote the Franchised Business only under the Marks. In conjunction with any use of the Marks, you are required to conspicuously identify yourself in all dealings with customers, employees, contractors, suppliers, public officials, and others as an independent franchisee operating under authority of this Agreement. You are required to display a prominent notice, in the form that we prescribe, in the Franchised Business and on all business cards, stationery, advertising, signs, invoices, and other materials, identifying us as the owner of the Marks and stating that you are a licensed user of the Marks.

11.2. Your Acknowledgments. You acknowledge that: (a) the Marks are valid and serve to identify the Brand and the Franchised Businesses operating under the System; (b) your use of the Marks under this Agreement does not give you any ownership interest in the Marks; and (c) all goodwill associated with and identified by the Marks belongs exclusively to Franchisor. Upon expiration or termination of this Agreement, no monetary amount will be attributable to goodwill associated with your activities as a franchisee under the Marks. Both during and after this Agreement, you agree not to contest or aid in contesting the validity or ownership of the Marks or take any action harmful to our rights in the Marks.

11.3. Limitations on Use of the Marks. You agree to:

11.3.1 Use the Marks only for the operation of the Franchised Business within the Territory, for approved activities outside of the Territory, and for approved marketing and advertising for the Franchised Business;

11.3.2 Use the Marks to promote and to offer for sale only the products and services that we have approved, and not use any Marks in association with the products, materials or services of others;

11.3.3 Use only the Marks designated by us and use them only in the manner we authorize;

11.3.4 Comply with our instructions in filing and maintaining any requisite trade name or fictitious name registrations, and sign any documents we deem necessary to obtain protection for the Marks or to maintain their continued validity and enforceability;

11.3.5 Not independently register or apply for registration of any trademark, service mark, trade name, domain name or electronic identifier relating directly or indirectly to the Marks, anywhere in the world, without our prior written consent. Any such registration or application by you, whether or not authorized by us, will be deemed to be owned by Franchisor and you agree to take such steps, including signing an assignment document, as we may request to confirm our ownership;

11.3.6 Permit us or our representatives to inspect your operations to assure that you are properly using the Marks;

11.3.7 Not use the Marks to incur any obligation or indebtedness on our behalf;

11.3.8 Not use any of the Marks as part of your corporate or legal name;

11.3.9 Not use any of the Marks on any employee forms, employee manuals, employee policies, pay stubs, benefits forms, payroll records, or other employee materials; and

11.3.10 Ensure that the Marks bear the “®”, “™”, or “SM” symbol, as we prescribe.

11.4. Changes to the Marks. We have the right to change, discontinue, or substitute for any of the Marks and to adopt new Marks that you are required to or may use. You agree to implement any such change at your own expense.

11.5. Copyrighted Materials. You acknowledge that Franchisor is the owner of certain copyrighted or copyrightable works (the “**Works**”) and that the copyrights in the Works are valuable property. The Works include, but are not limited to, the Brand Standards Manuals, advertisements, promotional materials, signs, Internet sites, mobile applications, vehicle graphics, and facility designs. We authorize you to use the Works on the condition that you comply with all of the terms and conditions of this Section 11. This Agreement does not confer any interest in the Works on you, other than the right to use them in the operation of the Franchised Business in compliance with the terms of this Agreement. If you prepare any adaptation, translation or other work derived from the Works, whether or not authorized by us, you agree that the material will be our property and you hereby assign all your right, title and interest therein to us. You agree to sign any documents we deem necessary to confirm our ownership.

11.6. Third-Party Challenges. You agree to notify us promptly of any unauthorized use of the Marks or Works that you suspect or of which you have knowledge. You also agree to inform us promptly of any challenge to the validity of, our ownership of, or our right to license others to use any of the Marks or Works. We have the exclusive right (but no obligation) to initiate, direct and control any litigation or administrative proceeding relating to the Marks and Works, including any settlement. You agree to sign documents and render any other assistance our counsel may deem necessary to protect our interests in the Marks and the Works.

11.7. No Representation. Franchisor makes no representation or warranty, express or implied, as to the use, exclusive ownership, validity or enforceability of the Marks or Works.

12. BRAND STANDARDS MANUALS

We will furnish you with one copy of, or electronic access to, the Brand Standards Manuals. We own the copyright in the Brand Standards Manuals and any portions in your possession or control are on loan from us and remain our property. We have the right to modify the Brand Standards Manuals at any time to reflect changes in the Brand Standards. In the event of a dispute about the contents of the Brand Standards Manuals, the master copy at our principal office takes precedence. You acknowledge that the Brand Standards Manuals and any credentials necessary to access digital versions of the Brand Standards Manuals are part of the Confidential Information.

13. CONFIDENTIAL INFORMATION

13.1. Nondisclosure. You are prohibited, both during and after the term of this Agreement, from communicating or divulging Confidential Information to any unauthorized person and from using Confidential Information for your benefit or for the benefit of any other person, other than for operation of the Franchised Business. You may divulge Confidential Information only: (i) to your employees and agents who must have access in order to carry out their duties relating to the Franchised Business; and (ii) to your contractors and landlord with our prior written approval. All information that we designate as confidential will be deemed to be Confidential Information for purposes of this Agreement.

13.2. Individuals Affiliated with the Franchised Business. At our request, the Owners, Key Person, and any employees we designate are required to sign a separate Confidentiality and Non-Compete Agreement in the form of Appendix C to this Agreement. At our request, you are required to use best efforts

to obtain signed confidentiality agreements from your landlord, contractors, and any other person outside of your organization to whom you wish to disclose any of our Confidential Information. The confidentiality agreements are required to be in a form satisfactory to us and identify us as a third party beneficiary with the independent right to enforce the agreement.

13.3. Improvements. You may not introduce any Improvement into the Franchised Business without our prior written consent. Any Improvement developed by you or any Owner, employee or agent of Franchisee is the property of Franchisor. At our request, you are required to provide us with information about the Improvement and sign any documents necessary to verify assignment of the Improvement to us, without compensation. We will have the right to use, disclose, and/or license the Improvement for use by others.

14. RESTRICTIONS ON COMPETITION

14.1. During the Term. You acknowledge that the relationship established by this Agreement will provide access to valuable Confidential Information, training, and business opportunities that you and the Owners did not possess before entering into this Agreement. Accordingly, while this Agreement is in effect, except as we otherwise approve in writing, you may not, either directly or indirectly:

14.1.1 Own, maintain, operate, engage in, invest in, be employed by, provide any assistance to, or have any interest in any “**Competing Business**,” as defined in the Brand Appendix; or

14.1.2 Appropriate or duplicate any part of the System for a purpose other than to operate the Franchised Business, or divert or attempt to divert any present or prospective business or customer to any Competing Business, or do anything else harmful to the goodwill associated with the Marks and the System.

14.2. After Expiration, Termination or Transfer. You agree that you will not, for a period of two (2) years commencing on the date of: (a) a transfer permitted under Section 15 of this Agreement; (b) expiration of this Agreement; (c) termination of this Agreement (regardless of the cause for termination); or (d) a final arbitration or court order (after all appeals have been taken) with respect to enforcement of this Section 14.2 to the extent such order is later than the respective foregoing event:

14.2.1 Own, maintain, operate, engage in, invest in, be employed by, provide assistance to, or have any interest in any Competing Business that is located in or serves customers within (i) the Territory, (ii) forty (40) miles of the Territory, (iii) any zip code where Franchisee’s Franchised Business served customers during the term, (iv) the territory of any other then-existing Franchised Businesses plus the area formed by extending the boundaries of that territory ten (10) miles in all directions, or (v) the territory serviced by any business operated by Franchisor, its affiliates or their licensees under the Marks at such time plus the area formed by extending the boundaries of that territory ten (10) miles in all directions; or

14.2.2 Appropriate or duplicate any part of the System for a purpose other than to operate a Franchised Business under a valid agreement with us, or divert or attempt to divert any present or prospective business or customer to any Competing Business, or do anything else harmful to the goodwill associated with the Marks and the System.

14.3. Enforcement.

14.3.1 You acknowledge that a violation of this Section 14 would result in irreparable injury for which no adequate remedy at law may be available. You consent to the issuance of an injunction,

without the need to post bond, prohibiting any violation of this Section 14. Injunctive relief is in addition to any other remedies we may have.

14.3.2 Neither you nor any person bound by the restrictions of this Section 14 may circumvent the restrictions by engaging in prohibited activity indirectly through any other person or entity.

14.3.3 For the individuals who are bound personally by the restrictions in this Section 14 or by a separate non-competition agreement with you or us, the time period in Section 14.2 will run from the expiration, termination, or transfer of the Franchised Business or from the end of the individual's relationship with Franchisee, whichever occurs sooner.

14.3.4 The time periods in Section 14.2 and Section 14.3.3 will be tolled for any period of time during which Franchisee or the restricted individual is in breach of the section and will resume only when Franchisee or such person begins or resumes compliance.

14.3.5 The existence of any claim Franchisee or any Owner may have against Franchisor or its affiliates, whether or not arising under this Agreement, shall not constitute a defense to Franchisor's enforcement of the restrictions in this Section 14 or any separate confidentiality or non-competition agreement.

14.3.6 You acknowledge and agree that Franchisee and each of its Owners possess skills and abilities of a general nature that provide them with other opportunities for employment and, therefore, our enforcement of the restrictions in Sections 14.2 and 14.3.3 will not deprive Franchisee or any of its Owners of their personal goodwill or ability to earn a living through alternative means.

14.3.7 We have the right to reduce the scope of any restriction in this Section 14, effective immediately upon written notice to Franchisee.

15. SALE OR ASSIGNMENT

15.1. No Transfer of Interest without Our Consent. We have entered into this Agreement in reliance on the business skill, financial capacity, and personal character of Franchisee and its Owners. Accordingly, neither Franchisee nor the Owners may sell, assign, give away, pledge, or encumber, either voluntarily or by operation of law (such as through divorce or bankruptcy proceedings) any direct or indirect interest in this Agreement, in the assets of the Franchised Business, or in the equity ownership of Franchisee without obtaining our prior written consent. This section applies to any transfer that would occur by any mechanism, including but not limited to family financial planning, estate planning, corporate reorganization, issuance or offering of securities, employee ownership plans, divorce, new marriage, bankruptcy, or receivership. If Franchisee is a corporation, limited liability company, or other business entity, this Section also applies to the transfer of a direct or indirect ownership interest in Franchisee. We can approve or disapprove the proposed transferee in our sole discretion. If we approve the proposed transferee, we can still impose conditions on the transfer. Franchisee and the Owners agree that the conditions in Sections 15.2 through 15.7 below are reasonable and that they do not preclude other conditions that we may impose. Franchisee and the Owners agree to notify us in writing of each proposed transfer, to provide all information and documentation relating to the proposed transfer that we request, and to refrain from completing the transfer until we advise you that all requirements of this Section 15 have been satisfied. If we have not responded within sixty (60) days after receiving all requested information, we will be deemed to have refused consent. We have the right to communicate with and counsel Franchisee, the Owners, and the proposed transferee on any aspect of a proposed transfer. Unless otherwise agreed, we do not waive any claims against the transferring party if we approve the transfer. If we do not approve the transfer, you are required to continue to operate the Franchised Business in accordance with this Agreement.

15.2. Transfer of Business. The conditions set forth in this Section apply to a proposed transfer of this Agreement and/or substantially all of the assets of the Franchised Business, as well as to a proposed transfer, alone or together with other previous, simultaneous or proposed transfers, of any direct or indirect equity ownership interest in Franchisee that would result in a change of control of Franchisee or the Franchised Business (“**Change of Control**”). Unless waived by Franchisor, the conditions are:

15.2.1 Franchisee and the Owners are required to be in compliance with all obligations to us under this Agreement and any other agreement with us and our affiliates as of the date of the request for our approval of the transfer, or make arrangements satisfactory to us to come into compliance by the date of the transfer.

15.2.2 The proposed transferee is required to:

(a) Demonstrate to our satisfaction that the proposed transferee and its owners and managers meet all of our then-current qualifications to become a franchisee of the Brand, which may include educational, managerial, and business standards; absence of involvement with Competing Businesses; good moral character, business reputation, and credit rating; and aptitude and ability to operate the Franchised Business. If the proposed transferee is already a franchisee of the Brand, that fact does not guarantee approval to become the operator of the Franchised Business. We have no less discretion with respect to a proposed transferee than we have with granting a new franchise.

(b) At our option, sign our then-current standard form of Franchise Agreement (or the standard form most recently offered to new franchisees) and related documents. The new Franchise Agreement may include new or increased fees and may otherwise differ, without limitation, from the terms of this Agreement.

(c) Require all owners of a beneficial interest in the transferee to sign our then-current form of Personal Guarantee and our other then-current standard documents.

(d) Successfully complete our then-current training requirements.

(e) Make arrangements to modernize and upgrade the Franchised Business, at the transferee’s expense, to comply with our then-current Brand Standards.

(f) If the proposed transferee is another franchisee of the Brand, the proposed transferee is required to not have any outstanding notice of default under any agreements with us, have a good record of customer service and compliance with Brand Standards, and sign a general release in a form acceptable to us.

15.2.3 Franchisee is required to pay us a transfer fee of \$10,000 (“**Transfer Fee**”). If the proposed transferee had been referred to you or us by a third-party (e.g., a broker) with whom we have a referral arrangement, then we must receive as a condition of approval, an additional fee equal to the amount owed under that referral arrangement. If we identify the prospective purchaser, then in addition to the Transfer Fee, we must receive the greater of: (a) \$15,000; (b) three percent (3%) of the total purchase price; or (c) our actual costs to identify the prospective purchaser. Any amounts paid pursuant to this Section are non-refundable.

15.2.4 Franchisee and all Owners are required to sign a general release, in a form satisfactory to us, of all claims against us and our past, present and future affiliates, officers, directors, shareholders, agents and employees. Franchisee and the Owners will remain liable to us for all obligations arising before the effective date of the transfer.

15.2.5 The price and other proposed terms of the transfer must not, in our judgment, have the effect of negatively impacting the future viability of the Franchised Business.

15.2.6 Any financing incurred in connection with the transfer is required to be expressly subordinated to the transferee's obligations to us.

15.3. Transfer of Minority Ownership Interest. For any proposal to admit a new Owner, to remove an existing Owner, to change the distribution of ownership shown on the Data Sheet, or otherwise modify the ownership in a way that would not result in a Change of Control of Franchisee or the Franchised Business, Franchisee is required to give us advance notice and submit a copy of all documents and other information concerning the transfer that we may request. We will have a reasonable time (not less than forty-five (45) days) after we have received all requested information to evaluate the proposed transfer. We may withhold our consent or give our consent subject to the conditions in Section 15.2 that we deem to be applicable, except that, instead of a transfer fee, we will only charge (i) the applicable, then-current change of ownership fee set by Franchisor from time to time (as of the Agreement Date, it is the greater of \$500 or Franchisor's external (i.e., not in-house) legal and administrative costs); plus (ii) applicable training fees for each new person that we determine needs training. Each proposed new owner is required to submit a personal application and sign a Personal Guarantee and our other then-current standard documents.

15.4. Transfer on Death, Incapacity or Bankruptcy. If Franchisee or any Owner dies, becomes incapacitated, or enters bankruptcy proceedings, that person's executor, administrator, personal representative, or trustee is required to apply to us in writing within 3 months after the event for consent to transfer the person's interest. The transfer will be subject to Sections 15.2 through 15.6, as applicable. In addition, if the deceased or incapacitated Owner is the Key Person, we will have the right (but no obligation) to take over operation of the Franchised Business upon giving notice to the executor, administrator, personal representative, or trustee and to manage the Franchised Business until the transfer is completed. If we exercise this right, we can charge a reasonable management fee for our services. For purposes of this Section, "incapacity" means any physical or mental infirmity that will prevent the person from performing his or her obligations under this Agreement (i) for a period of thirty (30) or more consecutive days or (ii) for sixty (60) or more total days during a calendar year. In the case of transfer by bequest or by intestate succession, if the heirs or beneficiaries are unable to meet the conditions of Section 15.2, the executor may transfer the decedent's interest to another successor that we have approved, subject to all of the terms and conditions for transfers contained in this Agreement. If an interest is not disposed of under this Section 15.4 within one year after the date of death or appointment of a personal representative or trustee, we can terminate this Agreement under Section 16.1.

15.5. Non-Conforming Transfers. Any purported transfer that is not in compliance with this Section 15 is null and void and constitutes a material breach of this Agreement, for which we may terminate this Agreement without opportunity to cure.

15.6. Our Right of First Refusal. We have the right, exercisable within thirty (30) days after receipt of the notice of a proposed transfer required by Section 15.1, to send written notice to you that we intend to purchase the interest proposed to be transferred, except that our right of first refusal will not apply if: (i) the sale would not result in a Change of Control; or (ii) the interests would transfer only to the spouse(s) and/or adult children of the Owners. The request for approval of transfer must include a true and complete copy of the term sheet, letter of intent, proposed purchase agreement, assignment document, description of financing or other contingencies, and any other documents we deem necessary to support a prudent business decision on whether to exercise the right of first refusal. We can assign our right of first refusal to someone else either before or after we exercise it.

15.6.1 If the proposed transfer is a sale, we or our designee may purchase on the same economic terms and conditions offered by the third party. Closing on our purchase must occur within sixty (60) days after the date of our notice to the seller electing to purchase the interest. If we cannot reasonably be expected to furnish the same type of consideration as the third-party, then we may substitute the equivalent in cash. If the parties cannot agree within thirty (30) days on the equivalent in cash, you and we will jointly designate and pay the cost of an independent appraiser, and the appraiser's determination will be final. We will have thirty (30) days after receipt of the appraiser's determination to decide whether to proceed with the purchase. We are entitled to receive, and Franchisee and the Owners agree to make, all customary representations and warranties given by the seller of the assets of a business or the capital stock of an incorporated business, as applicable. Any material change in the third party's offer after we have elected not to purchase the seller's interest will constitute a new offer subject to the same right of first refusal as for the third party's initial offer.

15.6.2 If a transfer is proposed to be made by gift, you and we will jointly designate, at our expense, an independent appraiser to determine the fair market value of the interest proposed to be transferred. We will have thirty (30) days after receipt of the appraiser's determination to decide whether to purchase the interest at the fair market value determined by the appraiser. If we decide to purchase, closing on the purchase will occur within forty-five (45) days after our notice to the transferor of our decision.

15.6.3 If we elect not to exercise our rights under this Section, the transferor may complete the proposed transfer after complying with Sections 15.1 through 15.4, provided that the final sale price is not less than the price at which we were entitled to purchase. If we determine that the final sale price is less than the price at which we were entitled to purchase, we may refuse to give our consent to the transfer. Closing of the transfer to the third party must occur within sixty (60) days of our election not to exercise our rights. If closing does not occur within the 60-day period, the third party's offer will be treated as a new offer subject to our right of first refusal.

15.7. Transfer of Development Agreement. If this Agreement is associated with a Development Agreement and you propose to transfer your rights under the Development Agreement, you are required (unless we otherwise approve) to transfer this Agreement and all other Franchised Businesses developed under the Development Agreement to the same transferee in the same transaction.

15.8. Sale or Assignment by Franchisor. We have the right to transfer or assign all or any portion of our rights or obligations under this Agreement to any person or legal entity including the operator of a competing franchise system. The assignee will expressly assume our obligations and become solely responsible for them from the effective date of assignment. We can sell our assets, sell securities in a public offering or in a private placement; merge with, acquire, or be acquired by another company; or undertake a refinancing, recapitalization, leveraged buy-out, or other economic or financial restructuring, without restriction and without affecting your obligations under this Agreement.

16. DEFAULT AND TERMINATION

16.1. Termination without Cure Period. In addition to any other rights of termination set forth in this Agreement, we will have the right to terminate this Agreement if any of the following events of default occurs, without providing you an opportunity to cure the default, effective immediately upon delivery of written notice to you:

16.1.1 If you do not have an Approved Location within three (3) months after signing this Agreement;

16.1.2 If at any time during the pre-opening training program, we conclude in our sole judgment that any person required to attend the pre-opening training program does not possess the skills necessary to properly fulfill and discharge the demands and responsibilities required by the System or this Agreement;

16.1.3 If you do not open the Franchised Business by the Opening Deadline;

16.1.4 If you close the Franchised Business for three (3) or more consecutive business days without our prior approval, express your intent to abandon the Franchised Business, or cease to operate the Franchised Business for any period in circumstances where it is reasonable to conclude that you do not intend to promptly resume operation of the Franchised Business;

16.1.5 If you lose the right to possession of the Approved Location, or otherwise forfeit the right to do business in the jurisdiction where the Franchised Business is located. However, if, through no fault of your own, the Franchised Business premises are damaged or destroyed by an event such that repairs or reconstruction cannot be completed within sixty (60) days thereafter, then you will have thirty (30) days after that event in which to apply for our approval to relocate and/or reconstruct the Franchised Business;

16.1.6 If you refuse to permit us to inspect the Franchised Business or your books, records, or accounts as provided herein;

16.1.7 If you do not comply with the restrictions on competition in Section 14;

16.1.8 If any transfer of interest in this Agreement, Franchisee, or the Franchised Business occurs that does not comply with Section 15, or if an interest is not disposed of under Section 15.4 within one year after the date of death or appointment of a personal representative or trustee;

16.1.9 If you misuse or disclose to any unauthorized person any contents of the Brand Standards Manuals or other Confidential Information;

16.1.10 If you knowingly maintain false or misleading books or records, knowingly underreport sales, or knowingly submit any other false or misleading information to us;

16.1.11 If you perpetrate common law fraud against us or any customer or supplier of the Franchised Business or knowingly permit any agent or employee of Franchisee to embezzle any funds or property of any customers, Franchisor, Franchisee, or others;

16.1.12 If Franchisee takes, withholds, misdirects or appropriates for Franchisee's own use any funds withheld from Franchisee's employees' wages for employees' taxes, FICA, insurance, or benefits;

16.1.13 If Franchisee or any Owner commits or is convicted of, pleads guilty to, or pleads no contest to a felony, a crime involving moral turpitude, or any other crime or offense that we believe is likely to have an adverse effect on the System, the Marks, or the goodwill associated with them. Once Franchisee or any Owner has been arrested for or formally charged with a serious criminal offense, we will have the right: (i) to require that the individual(s) charged be removed from any active role in the Franchised Business pending final disposition of the charges; and (ii) if the person(s) charged include the Key Person, to take over operation of the Franchised Business and to manage it on your behalf pending final disposition of the charges. If we exercise the right in clause (ii), we may charge a reasonable management fee for our services;

16.1.14 If Franchisee is insolvent or makes an assignment for the benefit of creditors; if a receiver is appointed for the Franchised Business; if execution is levied against your business assets; if a suit to foreclose any lien or mortgage is filed against you and not dismissed within sixty (60) days; or if your business entity is dissolved;

16.1.15 If Franchisee or any Owner appears on any government list of “blocked” persons or its assets, property, or interests are “blocked” under any anti-terrorism law or similar law that prohibits us from doing business with Franchisee or the Owner;

16.1.16 If Franchisee breaches a material provision of this Agreement that is not, by its nature, curable or that goes to the essence of the Agreement;

16.1.17 If you do not achieve the prescribed minimum score or standard on two consecutive assessments or on three or more assessments in any five (5) year period under Section 6.21;

16.1.18 If you fail to maintain the insurance coverage required by Section 9, or fail to provide satisfactory evidence of insurance to us within forty-eight (48) hours of our request;

16.1.19 If you fail to contact a customer within forty-eight (48) hours after receiving a customer complaint, or fail to resolve to our satisfaction any customer complaint in the manner and within the timeframe set forth in the Brand Standards Manuals, and you do not correct such failure within seven (7) days after we deliver written notice to you;

16.1.20 If you fail to attend our annual convention for two (2) consecutive years;

16.1.21 If the business license for, or any other permit or license required for the operation of, the Franchised Business is suspended or revoked;

16.1.22 If you fail to conduct and keep records of a satisfactory background check on any employee as may be required by us prior to his/her hire and on a regular basis, and you fail to cure the default within 10 days after we deliver written notice to you;

16.1.23 If you cure a default after written notice from us and the same default occurs again within one (1) year, whether or not cured after notice; or

16.1.24 If you fail on three (3) or more separate occasions within any period of eighteen (18) months to submit when due reports or other data, information or supporting records, or to pay when due any amounts due to us or otherwise comply with this Agreement, whether or not such failures to comply were corrected after written notice of such failure was delivered to you.

16.2. Termination for Non-Payment. If you fail to pay any monies owed to us, our affiliates or a third party supplier within seven (7) days after receipt of notice of default from us, this Agreement will terminate at the end of the 7-day period without further notice from us.

16.3. Termination Following Expiration of Cure Period. Except as provided in Sections 16.1 and 16.2 and elsewhere in this Agreement, we can terminate this Agreement only by giving you written notice of termination stating the nature of the default, at least thirty (30) days before the effective date of termination. If the default is not cured within the thirty (30) day period (or such longer period as applicable law may require) this Agreement will terminate without further notice to you, effective at the end of the cure period. Any material failure to comply with the requirements imposed by this Agreement (as supplemented by the Brand Standards Manuals) will be a default under this Section 16.3.

16.4. Cross-Default. We have the right to treat a default under any other agreement that you or an affiliate have with us or an affiliate as a default under this Agreement, subject to any applicable provisions for notice and cure set forth in the other agreement. For purposes of this section, “affiliate” means a person or business entity controlling, controlled by, or under common control with Franchisee or Franchisor, as applicable.

16.5. Cross-Guarantee. In the event Franchisee or Franchisee’s affiliate now holds or later acquires any interest in a Franchised Business other than the Franchised Business franchised under this Agreement, Franchisee shall unconditionally guarantee full performance and discharge of all of the franchisee’s obligations under the franchise agreement for such other Franchised Business, including without limitation the payment of all royalty fees, advertising fees, and other obligations.

16.6. Pre-Termination Options of Franchisor. Prior to the termination of this Agreement, if you fail to pay any amounts owed to us or our affiliates or fail to comply with any term of this Agreement, then in addition to any right we may have to terminate this Agreement or to bring a claim for damages, we will have the right to take the actions set out below and continue them until you have cured the default to our satisfaction. The taking of any of the actions permitted in this Section 16.6 will not suspend or release you from any obligation that would otherwise be owed to us or our affiliates under the terms of this Agreement. We may:

16.6.1 Remove the listing of the Franchised Business from all advertising published or approved by us;

16.6.2 Prohibit you from attending any meetings or seminars held or sponsored by us or taking place on our premises;

16.6.3 Charge you the default Royalty Fee rate in Section 7.6 of this Agreement;

16.6.4 Suspend access to the Call Center, the Franchisee Portal, and any technology systems we provide to you; and/or

16.6.5 Suspend services provided to you by us or our affiliates under this Agreement, including but not limited to inspections, training, marketing assistance, and the sale of products and supplies.

16.7. Step In Rights. In addition to our right to terminate this Agreement, and not in lieu of such right, or any other rights we may have against you, upon a failure to cure any default within the applicable cure period (if any), we have the right, but not the obligation, to enter the Franchised Business premises and exercise complete authority with respect to the operation of the Franchised Business (or designate a third party to exercise authority) until such time as we determine that the default has been cured, and you are otherwise in compliance with this Agreement. If we exercise the rights described in this Section, you are required to pay us (or our designee) a fee of up to \$500 per day and reimburse us (or our designee) for all costs and overhead, if any, incurred in connection with the operation of your Franchised Business, including, without limitation, costs of personnel for supervising and staffing the Franchised Business and their travel and lodging. If we undertake to operate the Franchised Business pursuant to this Section, you agree to indemnify and hold us (and our designees and employees) harmless from and against any fines, claims, suits or proceedings which may arise out of our operation of the Franchised Business.

16.8. Liquidated Damages. If we terminate this Agreement based on your default, you are required to pay us, as liquidated damages, an amount equal to the greater of: (i) two years of Royalty Fees (calculated as your average Royalty Fees per payment period in the year preceding the termination of this

Agreement, multiplied by the number of payment periods occurring in a two-year period); or (ii) \$100,000 (unless a different minimum is stated in the Brand Appendix). The liquidated damages are in addition to costs and expenses that you may owe us under Section 23 (Disputes).

17. OBLIGATIONS UPON TERMINATION OR EXPIRATION

17.1. Our Rights to Acquire Approved Location and Franchise Assets. Upon expiration or termination of this Agreement under any circumstances, you are required to:

17.1.1 At our request, assign to us your interest in the lease or sublease for the Approved Location (or provide us with a commercially reasonable lease if you own the Approved Location). If we elect not to exercise our option to acquire the lease, you are required to make modifications or alterations to the Approved Location as necessary to comply with Section 17.2 and to distinguish the Approved Location from that of a Franchised Business.

17.1.2 At our request, sell to us such of the furnishings, fixtures, vehicles, equipment, and signs of the Franchised Business as we may designate, at fair market value, and such of the inventory and supplies on hand as we may designate, at fair market wholesale value. If the parties cannot agree on the price of any such items within thirty (30) days, we will appoint an independent appraiser, and the appraiser's determination will be final. Franchisor and Franchisee will each pay one-half of the appraiser's fees and costs. We will have thirty (30) days after receipt of the appraiser's determination to decide whether to proceed with the purchase. If we exercise our option to purchase any items, we will have the right to set off any amount due us or our affiliate from you against any payment for the items.

17.1.3 At our request, provide us with a copy of each customer agreement for the Franchised Business and any related information we request, and provide us with all other information and access necessary for us (or our designee) to continue servicing the customer and related business relationships within three (3) days from our request at no cost to us (since the Customer Data is our property). To this end, each customer agreement must include a clause providing us the unconditional right (but not an obligation) to assume (directly or through a designee) the customer agreement upon the termination or expiration of this Agreement, including all of your rights and obligations thereunder that arise from and after such assumption. Upon the expiration or termination of this Agreement, you agree to facilitate our conversations with customers to ensure an orderly transition of the business operations. You agree to pay over to us (or our designee) any amounts (or a pro rata portion of any amounts) paid to you by your customers for services that you have not yet performed.

We can exercise any or all of our options under Sections 17.1.1, 17.1.2 and 17.1.3: (a) within thirty (30) days after the expiration of the Agreement Term, in the case of expiration of this Agreement; and (b) in the case of termination of this Agreement, at any time between the date of delivery of written notice of termination and thirty (30) days after the effective date of termination (or after the arbitration or court ruling upholding the termination, if termination is contested). We may assign these options to another person or entity. To preserve the value of these options, we may issue to you, and you are required to comply with, written instructions to refrain from, delay, or reverse any of the actions required of you under Section 17.2.

17.2. De-identification. Unless we have instructed you otherwise under Section 17.1.3, upon termination or expiration of this Agreement under any circumstances, you are required to:

17.2.1 Cease to operate the Franchised Business, withdraw all advertising that can be canceled, remove from the Approved Location and from service vehicles all signs, graphics, and other items that display the Marks, and make any other changes that we request to dissociate yourself, the Approved Location, and the former Franchised Business from the System;

17.2.2 Either permanently deactivate or, at our request, transfer to us all domain name registrations and other accounts, profiles, pages, user names, and registrations by which you associate the Franchised Business with the Brand online or in any mobile network or other electronic marketing or communications channel, including but not limited to any social media, blog, messaging system, email domain, listserv, directory, or smart phone app, whether or not we authorized the particular usage or channel. If you do not voluntarily transfer these domain names, accounts, profiles, pages, user names, and registrations, the registrars and hosts of any such electronic marketing or communications channels may accept this Agreement as evidence of our exclusive rights in the domain names, accounts, profiles, pages, user names, and registrations and of our authority to direct their transfer on your behalf. You acknowledge that when the domain names, accounts, profiles, pages, user names, and registrations are transferred, all hosted content will also be transferred to us, including all data housed on the electronic marketing and communications channels as well as all members, friends, contacts and customers who are linked to the accounts or sites;

17.2.3 Cease to use the Confidential Information (including the Brand Standards Manuals, Customer Data and Business Data), the Marks, the Works, and all other distinctive elements associated with the System, and return all materials in your possession or control, in any medium, that contain Confidential Information, bear any of the Marks, or constitute Works;

17.2.4 Cancel any assumed name registration that contains any element or variation of the Marks, and furnish evidence satisfactory to us of compliance with this obligation within five (5) days after termination or expiration of this Agreement;

17.2.5 Cease using the telephone number(s) of the Franchised Business, notify your telephone company and all listing agencies of the termination of your right to use the telephone numbers and listings for the Franchised Business, and transfer those number(s) and listings to us or our designee. If you do not voluntarily transfer these numbers and listings, we will present the signed copy of Appendix D to the telephone company and all listing agencies as evidence of our exclusive rights in the telephone numbers and directory listings and of our authority to direct their transfer on your behalf;

17.2.6 Return to customers (or if we request, to us) all items, including keys, in your possession which relate to that particular customer;

17.2.7 Not directly or indirectly represent yourself to the public or hold yourself out as a present or former franchisee of the Brand; and

17.2.8 Not use any reproduction, counterfeit, copy, or colorable imitation of the Marks or the Works in connection with any other business that, in our opinion, is likely to cause confusion, mistake, or deception or to dilute our and/or our affiliates' rights in and to the Marks and the Works. You must not use any designation of origin or description or representation that falsely suggests or represents an association or connection with us.

You hereby appoint us as your attorney-in-fact to carry out the requirements of this Section 17.2 if you fail to do so within a reasonable time, which need not be more than fifteen (15) days. You agree that we will have the right to enter the Approved Location and to contact your landlord and other third parties to make any required changes that you fail to make. You agree to reimburse us on demand for any costs that we incur to carry out your obligations.

17.3. Continuing Obligations. After termination or expiration of this Agreement under any circumstances, you will remain liable to us for certain obligations. Among other things, you are required to:

17.3.1 Promptly pay all sums owing to us and our affiliates;

17.3.2 Permit access to and examination of books and records as provided in Section 8 to determine any amounts due;

17.3.3 Protect the Confidential Information as provided in Section 13;

17.3.4 Comply with the post-term restrictions on competition in Sections 14.2 and 14.3;
and

17.3.5 Indemnify us as provided in Section 20.

18. BUSINESS ENTITY REQUIREMENTS

18.1. Ownership Information. Franchisee and each Owner represents and warrants that the ownership information on the Data Sheet is correct and complete as of the Agreement Date and will not be changed without first obtaining our consent as required by Section 15. You are required to maintain a current list of all stockholders, general partners, limited partners, members, or other direct and indirect beneficial owners (as applicable) and furnish the list to us upon request. If any Owner is a business entity, you are required to provide all information we request concerning that business entity and its owners. Every individual or entity that owns a direct or indirect equity interest of 5% or greater in Franchisee is required to guarantee Franchisee's performance of this Agreement by executing the Personal Guarantee attached to this Agreement.

18.2. Governing Documents. At our request, you are required to furnish us with copies of Franchisee's articles of incorporation, bylaws, partnership agreement, certificate of formation, limited liability company operating agreement, stock certificates, corporate minutes, or other governing documents, as applicable. You are required to give us at least thirty (30) days prior written notice of any proposed amendments to your governing documents. Your governing documents must provide at all times that your activities are confined exclusively to developing and operating Franchised Businesses. If any controlling Owner is a business entity, you are required to provide similar information concerning that business entity as we may request.

18.3. Control Arrangements. Any voting trust, management agreement, or other arrangement affecting the power to direct and control the affairs of Franchisee requires our prior written consent. You are required to furnish any information and documentation that we may request concerning a proposed control arrangement.

18.4. No Use of Marks in Corporate or Legal Name. Without limiting any of the requirements in Section 11.3 above, you acknowledge and agree that you may not use any of the Marks as part of your corporate or legal name.

19. RENEWAL

19.1. Renewal Term and Conditions. You will have the option to continue the franchise relationship for one (1) additional term of ten (10) years, subject to this Section. We will require you to satisfy the following requirements as a condition of renewing the franchise relationship with us:

19.1.1 You are required to give us written notice of your desire to renew not less than six (6) months and not more than twelve (12) months before the Expiration Date;

19.1.2 You must not be in default of this Agreement or any other agreement with us, our affiliates, or our approved vendors at the time you give the notice in Section 19.1 or during the remainder of the expiring term;

19.1.3 You are required to have a good record of customer service and of compliance with Brand Standards and your contractual obligations to us;

19.1.4 You are required to be on good terms with us, including but not limited to having a good working relationship for day-to-day operations and not being in litigation or other adversarial legal proceedings with us;

19.1.5 At our option, you will sign the then-current franchise agreement being offered to new franchisees of the Brand, except that we may or may not include a further renewal option (the “**Successor Franchise Agreement**”). The terms of the Successor Franchise Agreement may differ substantially from the terms of this Agreement, including increased fees, new fees, reconfiguration of the Territory, and higher Minimum Performance Requirements. Personal guarantees will be required per our then-current policy and our other standard documents will be required;

19.1.6 You are required to pay us the renewal fee specified in the Brand Appendix;

19.1.7 Franchisee and all Owners are required to sign a general release, in a form we prescribe, of any and all claims against us, our affiliates, and our officers, directors, shareholders and employees;

19.1.8 The Key Person and any employees we designate are required to successfully complete any additional or refresher training courses that we may require;

19.1.9 You are required to demonstrate that you have the right to remain in possession of the Approved Location for the full renewal term;

19.1.10 You are required to remodel, refurbish, renovate (including without limitation, as to any upgrading or refurbishing of vehicles used in the Franchised Business as may be requested by us) and/or re-equip the Franchised Business and premises to conform to our then-current Brand Standards for new Franchised Businesses before the end of the expiring term or obtain our approval of arrangements to complete the work on a schedule satisfactory to us; and

19.1.11 The computer system and vehicle(s) used in operation of the Franchised Business must be upgraded as necessary to meet our then-current Brand Standards.

19.2. Your Failure to Act. Your failure to give timely notice of your desire to renew will be deemed an election to decline the option in Section 19.1. IN FRANCHISOR’S SOLE DETERMINATION, FRANCHISEE MAY BE DEEMED TO HAVE IRREVOCABLY DECLINED TO CONTINUE THE FRANCHISE RELATIONSHIP IF FRANCHISEE FAILS TO SIGN AND RETURN TO FRANCHISOR THE SUCCESSOR FRANCHISE AGREEMENT AND OTHER DOCUMENTS REQUIRED BY FRANCHISOR WITHIN THIRTY (30) DAYS AFTER THEIR DELIVERY TO FRANCHISEE, OR FAILS TO COMPLY IN ANY OTHER WAY WITH THE PROVISIONS OF THIS SECTION 19.

19.3. Holding Over. If Franchisee does not sign a Successor Franchise Agreement by the Expiration Date and continues to accept the benefits of this Agreement after the expiration of this Agreement, then at the option of Franchisor, this Agreement may be treated either as (i) expired as of the Expiration Date, with Franchisee then operating without a franchise to do so and in violation of Franchisor’s

rights; or (ii) continued on a month-to-month basis (“**Interim Period**”) until one party provides the other with written notice of such party’s intent to terminate the Interim Period, in which case the Interim Period will terminate thirty (30) days after receipt of the notice to terminate the Interim Period. In the latter case, all obligations of Franchisee shall remain in full force and effect during the Interim Period as if this Agreement had not expired, and all obligations and restrictions imposed on Franchisee upon expiration of this Agreement shall be deemed to take effect upon termination of the Interim Period.

20. INDEMNIFICATION

You agree to indemnify Franchisor, its affiliates, and their respective past, present, and future officers, directors, shareholders, employees, and agents (collectively, “**Protected Parties**”) for, and at our option defend the Protected Parties against: (i) any claims (whether or not by a third party) arising directly or indirectly from, as a result of, or in connection with your activities under this Agreement (collectively, “**Claims**”); and (ii) any liabilities, damages, losses, and expenses the Protected Parties incur as a result of such Claims, including but not limited to attorneys’ fees, costs of investigation, settlement costs, fines, civil penalties, and interest charges (collectively, “**Expenses**”). To the extent permitted by law, this indemnity includes Claims and Expenses alleged to be caused by the negligence of the Protected Parties, unless (and then only to the extent that) the Claim or Expense is finally determined by a court to have been caused solely by the gross negligence or willful misconduct of the Protected Parties. With respect to any threatened or actual litigation, proceeding, or dispute that could directly or indirectly affect any of the Protected Parties, the Protected Parties will have the right, but no obligation, to: (i) choose counsel; (ii) direct, manage, and control the handling of the matter; and (iii) settle any Claim on behalf of the Protected Parties. Your obligations under this Section are not limited by the amount of your insurance coverage. This Section will survive the expiration or termination of this Agreement.

21. NOTICES

All notices related to this Agreement are required to be in writing and are required to be delivered in person or sent by certified mail, by national commercial delivery service, or by other written or electronic means which affords the sender reliable evidence of delivery or attempted delivery, to the address shown in the Data Sheet, in the case of Franchisee, or to Authority Brands, Inc., 7120 Samuel Morse Drive, Suite 300, Columbia, MD 21046, Attn: Legal Department, in the case of Franchisor, unless and until a different address has been designated by written notice to the other party. For the avoidance of doubt, our delivery of notice to the business email address that we have on file for you will constitute effective notice unless we receive a non-delivery message. This Section does not apply to changes to the Brand Standards Manuals or any written instructions that we furnish to you relating to operational matters.

22. GENERAL PROVISIONS

22.1. Notice of Suit. You are required to notify us promptly of any legal proceeding or any order of a court or government agency that may adversely affect the operation or financial condition of the Franchised Business.

22.2. Independent Contractor. Nothing in this Agreement is intended to make Franchisor or Franchisee an agent, legal representative, subsidiary, joint venturer, partner, or employee of the other for any purpose. This Agreement does not create a fiduciary relationship between you and us. Nothing in this Agreement authorizes you to make any contract, agreement, warranty, or representation on our behalf or to incur any debt or other obligation in our name. We will not assume liability for any such action or for your acts or omissions or any claim or judgment against you. You are required to hold yourself out to the public as an independent contractor operating under this Agreement.

22.3. Public Notice of Independent Status. Franchisee is required to conspicuously identify itself by its own company name in all dealings with customers, landlords, vendors, contractors, reporters, public officials, and employees and on all business cards, stationery, advertising, payroll forms, purchase orders and other materials.

22.4. Severability. If a court or government agency determines that any provision of this Agreement is invalid or contrary to applicable law, the invalidity will not impair the operation of any other provision of this Agreement that remains otherwise intelligible. The latter will continue to be given full force and effect and the invalid provision(s) will be deemed not to be a part of this Agreement.

22.5. No Implied Waiver. No failure to exercise any right reserved to us in this Agreement or to insist on your strict compliance with any obligation or condition in this Agreement, and no custom or practice of the parties, will constitute a waiver of our right to exercise any right or to demand your compliance with this Agreement. Our waiver of any particular default will not affect or impair our rights with respect to any subsequent default. Our delay or forbearance in exercising any right arising out of your breach or default will not prevent us from exercising the right, declaring any subsequent breach or default, or terminating this Agreement.

22.6. No Implied Third Party Beneficiaries. Nothing in this Agreement is intended to confer any rights or remedies on any person or legal entity other than Franchisee and us.

22.7. No Implied Consent. Whenever this Agreement requires our prior approval or consent, you are required to make a timely written request, and the approval or consent must be obtained in writing and signed by one of our officers. We make no warranties or guarantees upon which you may rely and assume no liability or obligation to you by providing any waiver, approval, consent or suggestion in connection with this Agreement.

22.8. Survival of Obligations. All obligations which expressly or by reasonable implication are to be performed, in whole or in part, after the expiration, termination, or assignment of this Agreement will survive expiration, termination, or assignment.

22.9. Our Business Judgment. Except as otherwise expressly provided in this Agreement, whenever we exercise a right and/or discretion to take or withhold an action, we can make our decision or exercise our discretion based on our judgment of what is in the best interests of the Brand at the time, even though (a) there may have been alternative decisions or actions that could have been taken; (b) our decision or the action taken promotes our own financial interest; or (c) our decision or the action may apply differently to different franchisees. In the absence of an applicable statute, we will have no liability to you for any such decision or action. If applicable law implies a duty of good faith and fair dealing in this Agreement, we and you agree that the duty does not encompass any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement.

22.10. Relationship to Other Businesses of Franchisor and its Affiliates. In fulfilling its obligations to Franchisee, and in conducting any activities or exercising any rights pursuant to this Agreement, Franchisor has the right: (i) to take into account, as it sees fit, the effect on, and the interests of, other businesses in which Franchisor and its affiliates have an interest, and on Franchisor's (and its affiliates') own activities; (ii) to share market and product research, and other proprietary and non-proprietary business information, with Franchisor's affiliates and the businesses in which they have an interest; and/or (iii) to introduce products, processes, or operational equipment used by the System into the franchised systems of Franchisor's affiliates, and to allocate new products and/or developments between and among the franchised systems, as Franchisor and its affiliates see fit. Franchisee understands and agrees

that all obligations of Franchisor under this Agreement are subject to this section, and that nothing in this section shall affect in any way Franchisee's obligations under this Agreement.

22.11. Right to Information. You consent to us obtaining, using and disclosing to third parties (including, without limitation, prospective franchisees, financial institutions, legal and financial advisors), for any purpose whatsoever or as may be required by law, any financial or other information contained in or resulting from information, data, materials, statements and reports received by us or our affiliates (or disclosed to us or our affiliates) in accordance with this Agreement.

22.12. Entire Agreement. This Agreement and its Appendices constitute the entire agreement between Franchisor and Franchisee and the Owners concerning the Franchised Business. It supersedes all prior agreements, negotiations, representations, and correspondence concerning the same subject matter, except that nothing in this Agreement is intended to disclaim any representations made in any Franchise Disclosure Document that you received from us in connection with this Agreement. No amendment, change, or variance from this Agreement will be binding unless agreed to in writing and signed by authorized representatives of each party.

22.13. Amendment of Prior Agreements. In order to enhance consistency and quality of operation, performance, dispute resolution and other matters, we amend our standard Franchise Agreement from time to time. As a result, this Agreement may be different from other Brand franchise agreements that Franchisee or Franchisee's affiliates may have signed in the past and may contain revised provisions regarding, among other things, modifications to the System, manner of payment of fees and late fees, duties of franchisee, protection of trademarks, status and protection of Manuals and Confidential Information, technology requirements, advertising, insurance, accounting and records, transfers, default and termination, obligations on termination, franchisee covenants, taxes, indemnification, obligations to defend, approvals and waivers, notices, construction of agreement and applicable law. To cooperate with us in the achievement of these goals and as a condition of the grant of an additional franchise, Franchisee agrees that all of Franchisee's or its affiliates' existing Brand franchise agreements with Franchisor or its affiliates are amended to match the provisions of this Agreement (if the existing franchise agreements do not already include these provisions), except with respect to the royalty fee rate, required marketing contributions and spending, other fees for which amounts are specified, territory description, Approved Location, contract term, renewal conditions, and transfer conditions set out in the prior agreements, which will remain unchanged. FRANCHISEE ACKNOWLEDGES THAT THIS SECTION AMENDS ALL OF FRANCHISEE'S EXISTING FRANCHISE AGREEMENTS WITH FRANCHISOR AND THAT THE AMENDMENT WILL SURVIVE THE EXPIRATION OR TERMINATION OF THIS AGREEMENT.

22.14. Material Modification – for California Locations Only. If Franchisee or Franchisee's affiliates previously entered into one or more franchise agreements with Franchisor for a Franchised Business in California, Section 22.13 may constitute a material modification of those existing franchise agreements under California law. If that is the case, then with respect to each existing franchise agreement for a Franchised Business in California, Franchisee acknowledges having received Franchisor's Franchise Disclosure Document, which included a copy of this Agreement containing the material modifications, at least five (5) business days before signing this Agreement. If Franchisee notifies Franchisor in writing within five (5) business days after signing this Agreement that Franchisee (or Franchisee's affiliate, as applicable) rescinds this modification of the existing franchise agreement(s) for the Franchised Business in California, this Franchise Agreement will be null and void and Franchisee will not have the right to develop a Franchised Business under this Franchise Agreement.

22.15. Counterparts. This Agreement may be executed in counterparts, and each copy so executed and delivered shall be deemed to be an original. Any signature by electronic signature, facsimile or scanned

PDF shall be deemed an original signature. This Agreement shall be effective only upon the receipt of countersignature by us.

23. DISPUTES

23.1. Governing Law. This Agreement and the relationship between Franchisor and Franchisee and the Owners is governed by the laws of the State of Maryland, except that if a provision of this Agreement would not be enforceable under the laws of Maryland, and if the Franchised Business is located outside of Maryland and the provision would be enforceable under the laws of the state in which the Franchised Business is located, then that provision will be governed by the laws of the state in which the Franchised Business is located. In the event of any conflict of law question, the laws of Maryland will prevail, without regard to the application of Maryland conflict-of-law rules. This Section 23.1 is not intended to subject this Agreement or our relationship with you to any Maryland statute or regulation that would not apply by its own terms without considering this Section.

23.2. Mandatory Arbitration. Except as set forth in Sections 23.3 and 23.4 below and in subsection 23.2.5, any claim or dispute arising out of or relating to this Agreement (including but not limited to any claim that the Agreement or any of its provisions is invalid, illegal, or otherwise voidable or void), the relationship between you, your owners and affiliates and us or our affiliates, or your operation of the Franchised Business, shall be submitted to JAMS for mandatory, final and binding arbitration. The arbitration will be conducted in accordance with the Federal Arbitration Act, 9 U.S.C., Section 1, *et seq.*, and the commercial arbitration rules of JAMS in effect at the time of filing of the demand for arbitration (the "**JAMS Rules**"), except as the JAMS Rules may be modified by the following:

23.2.1 The seat of arbitration will be the JAMS office closest to Columbia, Maryland, and all arbitration hearings shall take place at that office. We have the right to designate headquarters for the Brand at a location other than Columbia, Maryland and to substitute that location for Columbia, Maryland for purposes of this section.

23.2.2 The arbitration will be conducted, heard and decided by one (1) arbitrator ("**Arbitrator**") who is mutually agreeable to the parties. If the parties have not agreed on the Arbitrator within thirty (30) days after filing of the arbitration demand with JAMS, the Arbitrator shall be appointed in accordance with the JAMS Rules.

23.2.3 The Arbitrator shall not entertain or permit any class or consolidated proceeding.

23.2.4 The administrative fees of JAMS and the Arbitrator's fees will be split equally between Franchisor and Franchisee.

23.2.5 If either party fails to pay its share of any fee required by JAMS to proceed with administration of the arbitration, and if the other party has paid its own share of the fee, the Arbitrator shall enter a default judgment in favor of the latter party. If an Arbitrator has not yet been appointed at the time of the non-payment of the required fee, the party that has paid its own share of the fee shall have the option to have a default judgment entered in its favor or to proceed in court on the claims submitted to arbitration.

23.2.6 The Arbitrator will not have the authority to add to, delete, or modify the terms of this Agreement. All findings, judgments, decisions and awards of the Arbitrator will be limited to the claims set forth in the arbitration demand and any counterclaims, as they may be amended, and the Arbitrator will not have the authority to decide any other claims. The Arbitrator will have the power to decide any or all of the issues, claims and defenses presented in the arbitration through summary judgment, summary disposition, or dismissal proceedings without a full evidentiary hearing or witness testimony, as long as all

parties are permitted to submit memoranda and affidavits and have oral argument, either in person or by telephone, if the Arbitrator determines that oral argument would assist in the decision making process. The Arbitrator will not have the right or authority to award punitive damages to any party. All findings, judgments, decisions and awards by the Arbitrator will be in writing and will be made within sixty (60) days after the arbitration hearings have been completed, and will be final and binding on all parties in the arbitration.

23.2.7 The written decision of the Arbitrator will be deemed to be an order, judgment and decree and may be entered as such in any court of competent jurisdiction.

23.2.8 The decision of the Arbitrator will have no collateral estoppel effect with respect to a controversy with any person or entity who is not a party to the arbitration proceeding.

23.3. Provisional or Declaratory Relief. Nothing in Section 23.2 or elsewhere in this Agreement prohibits Franchisor's right to seek a restraining order, preliminary injunction, specific performance or declaratory relief in court, under the applicable court rules, against conduct or threatened conduct for which no adequate remedy at law may be available or which Franchisor believes may cause Franchisor irreparable harm. Franchisor may have such relief without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law. Franchisee and each of its Owners acknowledges that any violation of (without limitation) Sections 11, 12, 13, 14, 15 or 17 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available. Accordingly, Franchisee and each of its Owners consents to the issuance of an injunction at Franchisor's request (without posting a bond or other security) prohibiting any conduct in violation of any of those Sections. Franchisee's sole remedy in the event of the entry of specific performance or injunction order will be the dissolution of the order, if warranted (all claims for damages by reason of the wrongful issuance of any such order being expressly waived by Franchisee). Franchisee agrees that the existence of any claims Franchisee or any of its Owners may have against Franchisor, whether or not arising from this Agreement, will not constitute a defense to the enforcement of Sections 11, 12, 13, 14, 15 or 17.

23.4. Disputes Not Subject to Mandatory Arbitration. Notwithstanding Section 23.2, Franchisor shall have the option to submit to a court any of the following actions: to collect fees due under this Agreement; for injunctive or other relief as described in Section 23.3; to protect our intellectual property, including the Marks, Confidential Information, and trade secrets; to terminate this Agreement for a default; and to enforce the post-term obligations in Section 17 of this Agreement. Notwithstanding anything in this Agreement, in the JAMS Rules, or any provision of law, the determination of whether a dispute or controversy filed in a court is subject to arbitration shall be made by the court, not by an arbitrator.

23.5. Time Limit on Filing. Except for claims arising from Franchisee's non-payment or underpayment of amounts Franchisee owes Franchisor or from performance or non-performance of Franchisee's obligations arising upon expiration or termination of this Agreement, any claim or action arising out of or relating to this Agreement or the relationship between us and Franchisee and the Owners will be barred unless submitted to arbitration or filed in court and served within two (2) years from the date the complaining party knew or should have known of the facts giving rise to such claim.

23.6. Venue for Litigation. Franchisee and the Owners are required to file any lawsuit against us only in the federal district court for the district encompassing Columbia, Maryland (or in the closest state court to Columbia, Maryland, if the federal court lacks subject matter jurisdiction). We may file a lawsuit against Franchisee or the Owners in the federal or state court for Columbia, Maryland or in the federal or state court where the Franchised Business is located. We have the right to designate headquarters for the Brand at a location other than Columbia, Maryland and to substitute that location for Columbia, Maryland

for purposes of this section. The parties irrevocably submit to the jurisdiction of such courts and waive all objections to personal jurisdiction and venue for purposes of carrying out this provision.

23.7. Waiver of Jury Trial. We, you, and the Owners irrevocably waive trial by jury in any action, proceeding, or counterclaim.

23.8. Waiver of Exemplary Damages. Franchisee and the Owners, on the one hand, and Franchisor on the other, waive any right to or claim of punitive or exemplary damages against the other, except that we do not waive our right to: (i) statutory, punitive or exemplary damages for violation of the Lanham Act, trademark infringement or dilution, or unauthorized disclosure of confidential information or trade secrets; or (ii) indemnification from Franchisee under Section 20 for any such damages claimed or awarded against Protected Parties.

23.9. Class Action Waiver. TO THE EXTENT PERMITTED BY LAW, FRANCHISEE AND THE OWNERS WAIVE THE RIGHT TO SEEK CERTIFICATION OF A CLASS IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM AGAINST US.

23.10. Costs and Legal Fees. In connection with any failure by Franchisee to comply with this Agreement, regardless of whether there is any legal proceeding to enforce the terms of this Agreement, Franchisee will reimburse Franchisor, upon demand, for the costs and expenses incurred by Franchisor as a result of such failure and Franchisor's enforcement of the terms of this Agreement. Franchisor's costs and expenses include, without limitation, accountants', attorneys', attorneys' assistants and expert witness fees, cost of investigation and proof of facts, court costs, other litigation expenses, and travel expenses. If Franchisee initiates a legal proceeding against Franchisor, and if Franchisee does not prevail in obtaining the relief Franchisee was seeking in such legal proceedings, then Franchisee will reimburse Franchisor for the costs and expenses incurred by Franchisor as a result of such legal proceedings, including, without limitation, accountants', attorneys', attorneys' assistants and expert witness fees, cost of investigation and proof of facts, court costs, other litigation expenses and travel expenses, whether incurred prior to, in preparation for, in contemplation of, or in connection with such legal proceedings. However, in case of any conflict between this Section and Section 23.2.4 or 23.2.7 above, Section 23.2.4 or 23.2.7 will take precedence. This section will survive termination or expiration of this Agreement.

23.11. Remedies are Cumulative. Except as otherwise provided in this Section 23, no right or remedy under this Agreement is exclusive of any other right or remedy.

**FRANCHISOR: COLOR WORLD NEW
FRANCHISE SYSTEMS, LLC**

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

PERSONAL GUARANTEE

As an inducement to **Color World New Franchise Systems, LLC** (“**Franchisor**”) to sign a Franchise Agreement (the “**Agreement**”) with _____ (“**Franchisee**”), the undersigned individuals (collectively, the “**Guarantors**”), jointly and severally, unconditionally guarantee to Franchisor, its affiliates, and their successors and assigns (collectively, the “**Franchisor Group**”) that all of Franchisee’s obligations under the Agreement and under other agreements or arrangements between Franchisee and the Franchisor Group will be punctually paid and performed.

1. Guarantee. Upon demand by Franchisor, the Guarantors will immediately make each contribution or payment required of Franchisee under the Agreement and under other agreements or arrangements between Franchisee and the Franchisor Group. Each Guarantor waives any right to require the Franchisor Group to: (a) proceed against Franchisee or any other Guarantor for any contribution or payment required under the Agreement; (b) proceed against or exhaust any security from Franchisee or any other Guarantor; or (c) pursue or exhaust any remedy, including any legal or equitable relief, against Franchisee or any other Guarantor. Without affecting the obligations of the Guarantors under this Guarantee, the Franchisor Group may, without notice to the Guarantors, extend, modify, or release any indebtedness or obligation of Franchisee, or settle, adjust, or compromise any claims against Franchisee. The Guarantors waive notice of amendment of the Agreement and notice of demand for contribution or payment and agree to be bound by any and all such amendments and changes to the Agreement.

2. Indemnity. The Guarantors agree to hold harmless, defend and indemnify the Franchisor Group against any and all losses, damages, liabilities, costs, and expenses (including attorneys’ fees, costs of investigation, court costs, and arbitration fees and expenses) arising out of or in connection with any failure by Franchisee to perform any obligation under the Agreement or any other agreement between Franchisee and the Franchisor Group.

3. Other Personal Obligations. The Guarantors acknowledge and agree to be bound personally by all obligations of the Franchisee in the Agreement, including but not limited to non-compete restrictions, confidentiality provisions, governing law and dispute resolution provisions, and restrictions on sale or transfer of interest in Franchisee or the Franchised Business. Except as expressly authorized by the Agreement, the Guarantors may not make use of any of the intellectual property rights licensed under the Agreement. The Guarantors may not disclose to any third party or make use of any trade secrets, know-how, systems or methods of which Guarantors may acquire knowledge by virtue of training they may have received from Franchisor, their involvement in the business, or their ownership interest in Franchisee.

4. Survival of Obligations. Upon the death of a Guarantor, the Guarantor’s estate will be bound by this Guarantee, but only for obligations existing at the time of death. The obligations of the surviving Guarantors will continue in full force and effect.

GUARANTOR:

Printed Name: _____

Signature: _____

Date: _____

GUARANTOR:

Printed Name: _____

Signature: _____

Date: _____

[This document is to be used when: (a) a married individual signs a Franchise Agreement, personal guarantee, or other agreement containing financial obligations to us; and (b) that individual's spouse is NOT also signing the same agreements.]

SPOUSE ACKNOWLEDGMENT

My name is _____ . I am the spouse of _____ .

I am aware that:

- my spouse is investing in a Color World Housepainting franchise;
- in connection with the franchise, my spouse is signing a Franchise Agreement, personal guarantee, and/or other documents that involve financial obligations to Color World New Franchise Systems, LLC and its affiliates (the "Franchise Documents"); and
- Color World New Franchise Systems, LLC and its affiliates are relying on all assets of my spouse, including jointly owned marital property, in accepting my spouse's obligations under the Franchise Documents.

I have read and know the contents of the Franchise Documents and the financial obligations undertaken by my spouse. I acknowledge that the Franchise Documents are being signed for the benefit of, and will be binding on, my marital community.

I understand that this Spouse Acknowledgment does not subject my separate, non-marital property to my spouse's financial obligations under the Franchise Documents.

I understand that my spouse is bound personally by the following provisions of the Franchise Agreement, and I agree to be bound by them as well: (i) the confidentiality and non-disclosure covenants in Section 13; (ii) the non-competition covenants in 14; and (iii) the governing law and dispute resolution provisions in Section 23.

By: _____

Name: _____

Date: _____

APPENDIX B TO FRANCHISE AGREEMENT

**BRAND APPENDIX
COLOR WORLD HOUSEPAINTING®**

The Franchised Business provides residential and commercial painting; deck painting, staining, or repair; fence painting or staining; power washing; minor carpentry, cleaning or repair services; drywall repair; gutter installation or removal; and holiday lighting services and products to consumers, as well as other related services that we may specify.

SECTION REFERENCE	SUBJECT	APPLICABLE TERM																				
Section 3	Expiration Date	Tenth (10 th) Anniversary of the Agreement Date																				
Section 4.1	Business Outfitting Fees	<table border="0"> <thead> <tr> <th><u>Fee Description</u></th> <th><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Holiday Lighting Outfitting Fee</td> <td>\$15,000</td> </tr> </tbody> </table>	<u>Fee Description</u>	<u>Amount</u>	Holiday Lighting Outfitting Fee	\$15,000																
<u>Fee Description</u>	<u>Amount</u>																					
Holiday Lighting Outfitting Fee	\$15,000																					
Section 6.6	Call Center Fee	See Section 7.4 below.																				
Section 6.10	Sourcing	If a contract with a national vendor requires us to pay fees to the vendor, you agree to pay us your pro rata share, based on the number of participating franchisees.																				
Section 6.18	Customer Warranty or Guarantee	See Operations Manual																				
Section 6.19	Minimum Performance Requirements	<p>The Franchised Business is required to attain or exceed the following quotas for Gross Revenue (the “Minimum Performance Requirements”):</p> <table border="0"> <thead> <tr> <th colspan="4">Minimum Gross Revenue for 12-Month Period</th> </tr> <tr> <th>Time Period Following Original Opening Date</th> <th>For 1 Territory</th> <th>For 2 Territories</th> <th>For 3 Territories</th> </tr> </thead> <tbody> <tr> <td>Months 1 to 12</td> <td>\$150,000</td> <td>\$112,500 for each Territory</td> <td>\$100,000 for each Territory</td> </tr> <tr> <td>Months 13 to 24</td> <td>\$275,000</td> <td>\$175,000 for each Territory</td> <td>\$150,000 for each Territory</td> </tr> <tr> <td>Months 25 to 36</td> <td>\$400,000</td> <td>\$250,000 for each Territory</td> <td>\$208,333 for each Territory</td> </tr> </tbody> </table>	Minimum Gross Revenue for 12-Month Period				Time Period Following Original Opening Date	For 1 Territory	For 2 Territories	For 3 Territories	Months 1 to 12	\$150,000	\$112,500 for each Territory	\$100,000 for each Territory	Months 13 to 24	\$275,000	\$175,000 for each Territory	\$150,000 for each Territory	Months 25 to 36	\$400,000	\$250,000 for each Territory	\$208,333 for each Territory
Minimum Gross Revenue for 12-Month Period																						
Time Period Following Original Opening Date	For 1 Territory	For 2 Territories	For 3 Territories																			
Months 1 to 12	\$150,000	\$112,500 for each Territory	\$100,000 for each Territory																			
Months 13 to 24	\$275,000	\$175,000 for each Territory	\$150,000 for each Territory																			
Months 25 to 36	\$400,000	\$250,000 for each Territory	\$208,333 for each Territory																			

SECTION REFERENCE	SUBJECT	APPLICABLE TERM
		<p>Months 37 to 48 \$525,000 \$325,000 for each Territory \$266,667 for each Territory</p> <p>Month 49 to Expiration Date \$650,000 \$400,000 for each Territory \$333,333 for each Territory</p> <p>“Original Opening Date” means the date on which you or any prior owner or predecessor operator of the Franchised Business first opened the Franchised Business.</p> <p>You acknowledge that the Minimum Performance Requirements are not meant to be, and you may not rely on them as, a representation or guarantee of the results that your Franchised Business or any particular Franchised Business will or might achieve. The Minimum Performance Requirements do not predict or project your revenue or other business results.</p>
Section 6.22	Brand Programs	Not Applicable as of Agreement Date
Section 6.26	Legal/Regulatory Requirements	<p>The Franchised Business will be subject to licensing laws, which vary by state and sometimes by county or municipality. For example, some states may require you to obtain or utilize workers or employees that have a contractor’s license or to hold additional permits and bonds. If you do not meet your state’s experience or other minimum qualifications and requirements, you may need to find alternative solutions, such as hiring licensed contractors while you apply for your contractor’s license. There are also federal, state, and in some cases local regulations pertaining to lead paint removal and disposal, and hazardous waste handling and disposal. It is your responsibility to contact the applicable licensing boards, as well as an attorney, to learn about specific industry and contractor laws and regulations applicable to your Franchised Business.</p>
Section 7.2	Royalty Fee	<p>You are required to pay us a Royalty Fee in an amount equal to 6% of Gross Revenue (subject to your obligation to pay the Minimum Royalty Fee adjustment described below).</p> <p>As of the Agreement Date, the Royalty Fee is due monthly based on Gross Revenue realized in the prior month. We have the right to change the payment period.</p>

		<p><u>Annual Minimum Royalty Fee Adjustment</u></p> <p>You are required to pay us a Minimum Royalty Fee which corresponds to the Minimum Performance Requirements for that period (see Section 6.19 above).</p> <p>At the end of each 12 month period following the Original Opening Date, we will calculate the total Royalty Fees that you paid to us during such period (“Royalties Paid”). If the Royalties Paid are less than the Minimum Royalty Fee for the applicable period, you shall pay us the difference between the Royalties Paid and the Minimum Royalty Fees no later than thirty (30) days after the date that the last 12 month period ended.</p> <p>The “<u>Minimum Royalty Fee</u>” is equal to the minimum amount of Royalty Fees you would be required to pay to us by achieving the applicable Minimum Performance Requirements.</p> <p>You acknowledge that the Minimum Royalty Fee is not meant to be, and you may not rely on it as, a representation or guarantee of the results that your Franchised Business or any particular Franchised Business will or might achieve. The Minimum Royalty Fee does not predict or project your revenue or other business results. The Minimum Royalty Fee is simply a fixed dollar value, the purpose of which is to guarantee a minimum economic return to us.</p> <p><u>Additional Terms</u></p> <p>We reserve the right to require you to process some or all payments by your customers through us or through designated service providers and using processes we designate, including automatic payment, credit and debit card payment, electronic funds transfer and other forms of direct or Internet payment. We may require that Royalty Fees, Brand Fund Contributions, product and service purchases and other payments you owe to us be taken out of the automatic payments made by your customers and paid to us, with the balance remitted to you. The companies we designate to process payment arrangements may include companies that are affiliated with us or in which we or our owners otherwise have ownership or control. If we elect, the designated companies may charge you for the service and will allocate and distribute payments received to you, while delivering to us all related royalty, advertising and other fees as outlined in this Agreement and pursuant to the processes we designate.</p>
--	--	---

SECTION REFERENCE	SUBJECT	APPLICABLE TERM
Section 7.3	Brand Fund Contribution	<p>As of the Agreement Date, the Brand Fund Contribution is 2% of Gross Revenue.</p> <p>We can increase the Brand Fund contribution above two percent (2%) of Gross Revenue upon notice to you; however the contribution will not exceed three percent (3%) of Gross Revenue.</p> <p>You must make the Brand Fund Contribution to us monthly (or as otherwise specified by us) and in the same manner that you pay your Royalty Fee.</p>
Section 7.4	Technology Fee(s)	<p><u>Operating and Production Fee</u></p> <p>You must pay us an Operating and Production Fee at our then-current rates for the bundled payments for various required products and services, including without limitation: estimating and customer management software, programs and integrations; call center services to help manage telephone calls and texts with your customers and potential customers; accounting software integration, chart of accounts, and ACH processing; and customer-service production platform and application.</p> <p>Currently, the Operating and Production Fee is \$500 for initial set up and \$1,650 per month.</p> <p>This fee is due monthly in the manner specified by us or as otherwise prescribed by us from time to time.</p> <p>Additional products and services are available from our designated and approved vendors; these products and services are in addition to the above fee and you must pay for the fees and costs related to such additional products and services.</p>
Section 10.3	Pre-Opening/Grand Opening Marketing	<p>Prior to opening, you will be required to pay us or our designee an amount equivalent to two (2) months of the Local Marketing Spend set forth in Section 10.4 below, as we designate..</p>
Section 10.4	Ongoing Local Marketing Spend	<p>Starting on the Original Opening Date, Franchisees are required to pay us \$42,000 per year, paid in equal monthly installments of \$3,500, or as otherwise designated by us. For additional territories that are contiguous, Franchisees are required to pay us \$24,000 per year, paid in equal monthly installments of \$2,000, or as otherwise designated by us.</p>

SECTION REFERENCE	SUBJECT	APPLICABLE TERM
Section 14.1	“Competing Business” definition	“ Competing Business ” means any business that: (i) engages in residential or commercial interior or exterior painting; deck painting, staining, or repair; fence painting or staining; power washing; minor carpentry or repair services; drywall repair; gutter installation or removal; or holiday lighting or services similar to those offered by the Franchised Business, (ii) grants franchises or licenses to others to operate such businesses, or (iii) is the same or substantially similar in nature or purpose to the Franchised Businesses (other than a “Color World Housepainting” business operated under a franchise agreement with us).
Section 16.8	Liquidated Damages	As stated in Section 16.8 of the Agreement
Section 19.1.6	Renewal Fee	The greater of: (a) 10 % of the then-current Franchise Fee; or (b) \$5,000

APPENDIX C TO FRANCHISE AGREEMENT

CONFIDENTIALITY AND NON-COMPETE AGREEMENT

_____ [name of Franchisee] (“**Franchisee**”) has entered into a Franchise Agreement (the “**Franchise Agreement**”) with Color World New Franchise Systems, LLC (“**Franchisor**”). Under the Franchise Agreement, Franchisor can require certain individuals affiliated with the Franchisee to bind themselves personally to the confidentiality obligations and restrictions on competition in the Franchise Agreement. You agree as follows:

1. You are signing this Agreement for the benefit of both Franchisee and Franchisor, as a condition of your employment by, ownership interest in, or other role with Franchisee. Franchisor has the right to enforce this Agreement directly against you.
2. You will or might gain access to Confidential Information (as defined in the Franchise Agreement) as a result of your role with Franchisee. You agree that you will: (a) not use the Confidential Information in any other business or capacity; (b) use your best efforts to maintain the confidentiality of the Confidential Information; and (c) not make unauthorized copies of any Confidential Information. If your relationship with Franchisee ends, these obligations continue, but you are required to return to Franchisor any materials in your possession or control that contain Confidential Information.
3. While the Franchise Agreement is in effect and you continue in your role with Franchisee, you will not, directly or indirectly (such as through an affiliate or a family member) own, operate, engage in, be employed by, provide assistance to, or have any economic interest in any Competing Business. “**Competing Business**” has the same meaning as set forth in the Brand Appendix to the Franchise Agreement.
4. For two (2) years after (i) your relationship with Franchisee ends; (ii) the expiration or termination of the Franchise Agreement; or (iii) the approved transfer of the Franchise Agreement to a new franchisee, whichever comes first, you will not, without Franchisor’s consent (which Franchisor may withhold at its discretion) either directly or indirectly (such as through an affiliate or a family member) own, operate, engage in, be employed by, provide assistance to, or have any economic interest in any Competing Business that is located in or serves customers within (i) the Territory defined in the Franchise Agreement, (ii) forty (40) miles of the Territory, (iii) any zip code where Franchisee’s Franchised Business served customers while the Franchise Agreement was in effect, (iv) the territory of any other then-existing Franchised Businesses plus the area formed by extending the boundaries of that territory ten (10) miles in all directions, or (v) the territory serviced by any business operated by Franchisor, its affiliates or their licensees under the Marks plus the area formed by extending the boundaries of that territory ten (10) miles in all directions. The time period above will be tolled for any period of time during which you are in breach of this section and will resume only when you begin or resume compliance.
5. You acknowledge that enforcement of the restrictions contained in Paragraphs 3 and 4 will not deprive you of the ability to earn a living. If a court rules that any of these restrictions is unenforceable by virtue of its scope or in terms of geographic area, type of business activity prohibited, and/or length of time, you agree to comply with any lesser restriction deemed enforceable by the court. If Franchisor or Franchisee initiates a legal proceeding to enforce this Agreement and prevails in the proceeding, you agree to reimburse Franchisor or Franchisee for its enforcement costs and expenses, including attorneys’ fees.

FRANCHISEE

YOU

APPENDIX D TO FRANCHISE AGREEMENT

TELEPHONE NUMBER AND INTERNET AGREEMENT

(Name of Telephone Company)

(Address)

(City, State, Zip)

(Office Telephone Number(s))

This TELEPHONE NUMBER AND INTERNET AGREEMENT, ASSIGNMENT AND POWER OF ATTORNEY (“Assignment”) is made pursuant to the terms of the Franchise Agreement dated _____ (“Agreement”) by and between Color World New Franchise Systems, LLC (“Franchisor”) and _____ (“Franchisee”), authorizing Franchisee to use Franchisor’s Marks and System in the operation of a business (the “Franchised Business”) in and for the Territory. Capitalized terms used herein without a definition shall have the meaning assigned to them in the Agreement.

For value received, Franchisee hereby irrevocably assigns to Franchisor all telephone listings and numbers at any time used by Franchisee in any printed or internet telephone directory in connection with the operation of the Franchised Business, whether now-existing or adopted by Franchisee in the future (collectively “Telephone Listings”) and all email addresses, domain names, social media accounts and comparable electronic identities that use the Marks or any portion of them at any time used by Franchisee in connection with any Internet directory, website or similar item in connection with the operation of the Franchised Business, whether now-existing or adopted by Franchisee in the future (collectively “Internet Listings”) (collectively referred to herein as “Listings”). From time to time upon Franchisor’s request, Franchisee agrees to promptly provide a complete list of all Listings to Franchisor (in such format and level of detail as required by Franchisor).

Franchisee shall have the right to use the Listings only in connection with advertising the Franchised Business in the Territory. Franchisee agrees to pay all amounts pertaining to the use of the Listings incurred by it when due. Upon expiration or termination of the Agreement for any reason, Franchisee’s right of use of the Listings shall terminate. In the event of termination or expiration of the Agreement, Franchisee agrees to pay all amounts owed in connection with the Listings, including all sums owed under existing contracts for telephone directory advertising and to immediately, at Franchisor’s request, (i) take any other action as may be necessary to transfer the Listings and numbers to Franchisor or Franchisor’s designated agent, (ii) install and maintain, at Franchisee’s sole expense, an intercept message, in a form and manner acceptable to Franchisor, on any or all of the Listings; (iii) disconnect the Listings; and/or (iv) cooperate with Franchisor or its designated agent in the removal or relisting of any telephone directory or directory assistance listing, Internet directory, website or advertising, whether published or online.

Franchisee agrees that Franchisor may require that all telephone numbers and telephone and internet equipment and service must be owned or provided by Franchisor or a supplier approved by Franchisor and that Franchisor has the right to require Franchisee to “port” or transfer to Franchisor or an approved call routing and tracking vendor all phone numbers associated with the Franchised Business or published in any print or online directory, advertisement, marketing or promotion associated with the Marks.

Franchisee appoints Franchisor as Franchisee’s attorney-in-fact, to act in Franchisee’s place, for the purpose of assigning any Listings to Franchisor or Franchisor’s designated agent or taking any other actions required of Franchisee under this Assignment. Franchisee grants Franchisor full authority to act in any manner proper or necessary to the exercise of the foregoing powers, including full power of substitution and execution or completion of any documents required or requested by any telephone or other company to transfer such Listings, and Franchisee ratifies every act that Franchisor may lawfully perform in exercising those powers. This power of attorney shall be effective for a period of two (2) years from the date of expiration, cancellation or termination of Franchisee’s rights under the Agreement for any reason. Franchisee intends that this power of attorney be coupled with an interest. Franchisee declares this power of attorney to be irrevocable and renounces all rights to revoke it or to appoint another person to perform the acts referred to in this instrument. This power of attorney shall not be affected by the subsequent incapacity of Franchisee. This power of attorney is created to secure performance of a duty to Franchisor and is for consideration.

FRANCHISEE:

[Individual Name]

_____, individually

Date

INSTRUCTIONS TO FRANCHISEE: YOU MUST PROVIDE ACTIVE ACCOUNT INFORMATION AT THE TIME OF SIGNING THE FRANCHISE AGREEMENT. IF YOU DO NOT YET HAVE A BUSINESS ACCOUNT FOR THE FRANCHISE, YOU MUST PROVIDE A PERSONAL ACCOUNT FOR US TO USE UNTIL YOU HAVE A BUSINESS ACCOUNT. YOU CAN CHANGE THE DESIGNATED ACCOUNT AT ANY TIME BY PROVIDING A NEW AUTHORIZATION FORM.

APPENDIX E TO FRANCHISE AGREEMENT

ELECTRONIC FUND TRANSFER AUTHORIZATION FORM

Payee: Color World New Franchise
Systems, LLC (“Franchisor”)

Account Number

ABA Routing #

Bank Name (Please Print)

Address

The undersigned hereby authorizes Franchisor to initiate debit entries by either electronic or paper means to the undersigned’s account indicated above at the Bank indicated above (the “Bank”), and authorizes the Bank to debit the same to such account and to make payment to Franchisor, or its assigns, at 7120 Samuel Morse Drive, Suite 300, Columbia, MD 21046, or such other address as may be designated by Franchisor. The undersigned agrees that in making payment for such charges, the Bank’s rights shall be the same as if each were a charge made and signed personally by the undersigned. The Bank shall have no obligation regarding the calculation or verification of the amount of any such payments.

This authority shall remain in full force and effect until Franchisor and the Bank have received a minimum of ninety (90) days’ advance written notice from the undersigned of the termination of authority granted herein. Until the Bank actually receives such notice, the undersigned agrees that the Bank shall be fully protected in paying any amounts pursuant to this authority. The undersigned further agrees that if any such payments are not made, whether with or without cause, and whether intentionally or inadvertently, the Bank shall be under no liability whatsoever to the undersigned.

Printed Name of Franchisee (Individual or Business Entity)

Signature of Franchisee (and Title, if signing on behalf of a Business Entity)

Date Signed: _____

EXHIBIT B

PROMISSORY NOTE, GUARANTY AND SECURITY AGREEMENT

PROMISSORY NOTE

Principal Amount: \$ _____

Effective Date: _____, 20__

1. **Principal Amount.** For value received, the undersigned (“Maker”) hereby unconditionally promises to pay to the order of Color World New Franchise Systems, LLC, a Delaware limited liability company with its principal offices located at 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046 (“Holder”), in lawful money of the United States of America, the Principal Amount of _____ and 00/100 Dollars (\$__) together with interest as set forth in Section 2.C. The Principal Amount represents a portion the Franchise Fee owed to Holder in connection with a Color World Housepainting Franchise Agreement dated as of _____, 202_ (“Franchise Agreement”).

2. **Payment Related Terms.**

A. **Payment.** Maker shall pay the Principal and Interest Amount to Holder in () equal weekly installments due as designated by Holder each week in the amount of _____ and ___/100 Dollars (\$____) commencing on _____ and with the final payment in the amount of _____ and ___/100 Dollars (\$__) due on _____. The attached amortization schedule reflects the payment schedule and is incorporated into this Note.

B. **Payment Arrangements.** Unless otherwise designated in writing by Holder, the payment required by Section 2.A. shall be made to Holder by electronic funds transfer in accordance with the terms of the Electronic Funds Transfer Agreement attached to the Franchise Agreement as an appendix. Maker shall be responsible for all costs and expenses incurred by Maker and Holder in connection with the electronic funds transfer.

C. **Interest**

(i) Interest at a rate of 12% per annum shall begin to accrue on the outstanding amounts due as of the above Effective Date. Interest shall be calculated on the basis of a year of three hundred sixty-five (365) days and charged for the actual number of days elapsed. Interest on the indebtedness evidenced by this Note shall in no event exceed the maximum amount permissible under applicable law (“Maximum Rate”).

(ii) After the occurrence of a Default, this Note shall bear interest, payable on demand, at a rate equal to 18% per annum, until paid, but not to exceed the Maximum Rate whether before or after the entry of judgment hereon. Interest shall be calculated on the basis of a year of 365 days and charged for the actual number of days elapsed. Following a permitted cure or waiver of Default, this Note shall cease to bear interest under this Section C(ii) and resume interest under Section C(i) above. This provision does not constitute a waiver of any Default or an agreement by the Holder to permit any late payments.

(iii) If, at any time, the interest to be paid by Maker would exceed the Maximum Rate, the interest to be paid shall be reduced to the Maximum Rate, and Holder shall credit any payment in excess of the Maximum Rate to the Principal Amount or refund the excess to Maker. The terms and provisions of this paragraph shall control and supersede every other conflicting provision of this Note.

D. **Prepayment.** This Note may be prepaid at the option of Maker, in whole or in part, without penalty.

3. **Assignment.** This Note is personal to Maker and is not assignable by Maker. This Note is assignable by Holder without notice to or consent of Maker.

4. **Default.**

A. Any of the following events shall constitute an event of default (“Default”):

(i) Maker fails to pay any principal of or, if applicable, interest on this Note when the same shall become due, either by the terms hereof or by acceleration or otherwise; or

(ii) Maker or its affiliates or subsidiaries default on any agreement with Holder, or its affiliates or subsidiaries, including the Franchise Agreement.

B. Upon the occurrence of any Default, Holder may, at its option and in addition to any right, power or remedy permitted by law or equity, by written notice to Maker, declare the unpaid Principal Amount of this Note to be and the same shall thereupon be and become, forthwith due and payable in its entirety, together with, if applicable, accrued interest on that amount. A Default under this Note shall also constitute a Default under the Franchise Agreement. No waiver by Holder of any Default shall operate as a waiver of any other default or the same default on a future occasion.

5. **Waivers.** Maker hereby waives presentment and demand for payment, notice of non-payment, notice of dishonor, protest of dishonor, and notice of protest. All sums due under this Note shall be without relief from valuation and appraisal laws.

6. **Notices.** No notice, demand, request or other communication to Maker or Holder shall be binding unless the notice is in writing and pursuant to section 21 of the Franchise Agreement.

7. **Enforcement.**

A. **Choice of Law.** This Note shall be governed by and construed in accordance with the laws of the State of Maryland.

B. **Choice of Forum.** Maker hereby submits to the personal jurisdiction of the state and federal courts located in Maryland, consents to venue in those courts, and agrees that Holder may, at Holder’s option, enforce its rights under this Note in those courts.

C. **Reimbursement of Costs.** If Holder brings an action to enforce or collect this Note, the prevailing party in such proceeding shall be entitled to reimbursement of its costs and expenses, including, but not limited to, reasonable accountants’, attorneys’, attorneys’ assistants’ and expert witnesses’ fees, cost of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for, in contemplation of, or subsequent to the filing of, any such proceeding. In any judicial proceeding, these costs and expenses shall be determined by the court and not by a jury. If Holder utilizes legal counsel (including in-house counsel employed by Holder or its affiliates) in connection with any failure by the undersigned to comply with this Note, Maker shall reimburse Holder for any of the above-listed costs and expenses incurred by it.

D. **Miscellaneous.** Maker acknowledges that its obligations under this Note are unconditional and separate from and independent of any other representations, warranties, commitments, agreements or understandings, whether oral or written, express or implied, between Maker and Holder. The liability of each entity or individual who is included as the “Maker” shall be joint and several.

E. **Severability.** If, but only to the extent that, any provision of this Note shall be invalid or unenforceable, then, such offending provision shall be deleted from this Note, but only to the extent necessary to preserve the validity and effectiveness of this Note to the fullest extent permitted by applicable law.

F. **Writing Required.** ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT, INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT, ARE NOT ENFORCEABLE. TO PROTECT YOU (BORROWER) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

G. **Jury Trial Waiver.** Maker waives, to the fullest extent permitted by applicable law, the right to a trial by jury in any action arising out of or relating to this Note or any Default under this Note.

IN WITNESS WHEREOF, Maker has executed this Note as of the date below.

MAKER:

Print Name: _____

Date: _____

**AMORTIZATION SCHEDULE
TO PROMISSORY NOTE**

[insert amortization schedule]

GUARANTEE

In consideration of the willingness of Color World New Franchise Systems, LLC (“Holder”) to permit _____ (“Maker”) to pay a portion of the Franchise Fee owed to Holder in connection with a Color World Housepainting Franchise Agreement and pursuant to the foregoing Promissory Note (“Note”), the undersigned _____ (“Guarantors”) hereby personally and unconditionally: **(1)** guarantee to Holder and its successors and assigns that Maker shall punctually pay and perform each and every undertaking set forth in the Note; and **(2)** agree personally to be liable for Maker’s Default under the Note.

Each Guarantor waives: **(a)** acceptance and notice of acceptance by Holder of the foregoing undertakings; **(b)** notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; **(c)** protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; **(d)** any right he or she may have to require that an action be brought against Maker or any other person as a condition of liability; **(e)** all rights to payments and claims for reimbursement or subrogation which any Guarantor may have against Maker arising as a result of the execution of and performance under this Guarantee by any Guarantor; **(f)** any law or statute which requires that Holder make demand upon, assert claims against or collect from Maker or any others, foreclose any security interest, sell collateral, exhaust any remedies or take any other action against Maker or any others prior to making any demand upon, collecting from or taking any action against Guarantors with respect to this Guarantee; **(g)** any and all other notices and legal or equitable defenses to which he or she may be entitled; and **(h)** any and all right to have any legal action under this Guarantee decided by a jury.

Each Guarantor consents and agrees that: **(i)** his or her direct and immediate liability under this Guarantee shall be joint and several; **(ii)** he or she shall render any payment or performance required under the Note upon demand if Maker fails or refuses punctually to do so; **(iii)** such liability shall not be contingent or conditioned upon pursuit by Holder of any remedies against Maker or any other person; **(iv)** such liability shall not be diminished, relieved or otherwise affected by any amendment of the Note, any extension of time, credit or other indulgence which Holder may from time to time grant to Maker or to any other person including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which shall in any way modify or amend this Guarantee, which shall be continuing and irrevocable during the term of the Note and for so long thereafter as there are monies or obligations owing from Maker to Holder under the Note; and **(v)** monies received from any source by Holder for application toward payment of the obligations under the Note and under this Guarantee may be applied in any manner or order deemed appropriate by Holder.

If any of the following events occur, a default (“Default”) under this Guarantee shall exist: **(a)** failure of timely payment or performance of the obligations under this Guarantee; **(b)** breach of any agreement or representation contained or referred to in this Guarantee; **(c)** the appointment of a guardian for, appointment of a receiver for, assignment for the benefit of creditors of, or the commencement of any insolvency or bankruptcy proceeding by or against, any Guarantor; and/or **(d)** the entry of any monetary judgment or the assessment against, the filing of any tax lien against, or the issuance of any writ of garnishment or attachment against any property of or debts due any Guarantor. If a Default occurs, the obligations of Guarantors shall be due immediately and payable without notice.

All notices, requests and approvals under this Guarantee shall be in writing and shall be deemed to have been properly given if and when personally delivered, or five (5) days after being sent by certified or registered mail, postage prepaid, return receipt requested, or thirty-six (36) hours after being sent by Federal Express or other overnight courier service providing delivery confirmation, to the address of the party set forth below or at such other address as any of the parties hereto from time to time may have designated by

written notice to the other party.

IF TO GUARANTORS:

IF TO HOLDER:

Color World New Franchise Systems, LLC
7120 Samuel Morse Drive, Suite 300
Columbia, Maryland 21046

This Guarantee shall be governed by and construed in accordance with the laws of the State of Maryland. Each Guarantor hereby submits to the personal jurisdiction of the state and federal courts located in Maryland, consents to venue in those courts, and agrees that Holder may, at Holder’s option, enforce its rights under this Guarantee in those courts. **Each Guarantor waives, to the fullest extent permitted by applicable law, the right to a trial by jury in any action arising out of or relating to this Guarantee or any Default under this Guarantee.**

If Holder brings an action to enforce this Guarantee in a judicial proceeding, the prevailing party in such proceeding shall be entitled to reimbursement of its costs and expenses, including, but not limited to, reasonable accountants’, attorneys’, attorneys’ assistants’ and expert witness fees, cost of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for or in contemplation of the filing of any such proceeding. In any judicial proceeding, these costs and expenses shall be determined by the court and not by a jury.

If Holder utilizes legal counsel (including in-house counsel employed by Holder or its affiliates) in connection with any failure by Guarantors to comply with this Guarantee, Guarantors shall reimburse Holder for any of the above-listed costs and expenses incurred by it.

This Guarantee is personal to the undersigned and is not assignable by Guarantors. This Guarantee is assignable by Holder.

If signed by more than one person or entity, the obligations hereunder shall be joint and several as to each signatory.

Guarantors acknowledge that their obligations under this Guarantee are unconditional and are separate from and independent of any other representations, warranties, commitments, agreements or understandings, whether oral or written, express or implied, between Guarantors and Holder, and that this Guarantee contains the entire agreement of Guarantors and Holder with respect to the subject matter of this Guarantee.

IN WITNESS WHEREOF, each of the undersigned has executed this Guarantee as of the date first above written:

GUARANTORS:

By: _____

Print Name: _____

By: _____

Print Name: _____

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (“Agreement”) is made and entered into as of _____, 20____, by and between _____, a _____ formed in _____ (“Debtor”), and Color World New Franchise Systems, LLC, a Delaware limited liability company (“Secured Party”), who agree as follows:

1. **Recitals.** This Agreement is made and entered into with reference to the following facts and circumstances:

A. Debtor and Secured Party entered into a Color World Housepainting Franchise Agreement (“Franchise Agreement”) under which Debtor was required to pay Secured Party a “Franchise Fee”;

B. Debtor and Secured Party entered into a Promissory Note (“Note”) on the same date as this Security Agreement (“Agreement”) under which Secured Party agreed to permit Debtor to pay a portion of the Franchise Fee on a payment plan;

C. Debtor is jointly and severally indebted to Secured Party in the principal amount of \$_____ as evidenced by the Note (the "Indebtedness"); and

D. As a material inducement for Secured Party’s accepting the Note, Debtor has agreed to secure Debtor’s performance under the provisions and conditions of the Note, the Franchise Agreement, and any other debts Debtor owes to Secured Party by granting to Secured Party a security interest in the collateral described in this Agreement.

2. **Grant of Security Interest.** As security for: (i) Debtor’s timely and complete payment of all amounts owing under the Note, the Franchise Agreement, and of any other debts Debtor owes to Secured Party; and (ii) Debtor’s performance of all of the covenants, obligations and agreements contained in the Note, the Franchise Agreement, this Agreement and all other instruments and documents pertaining to, evidencing or securing the Note, the Franchise Agreement or other debts Debtor owes to Secured Party (and as those instruments and documents may be amended from time to time), Debtor hereby grants, transfers, and assigns to Secured Party a continuing security interest in the following items, property and rights (collectively, “Collateral”):

A. All of the personal property of Debtor now and hereafter situated at, used in connection with, relating to or deriving from any Color World Housepainting business (or its successor) pursuant to the Franchise Agreement or otherwise, including without limitation, at those certain premises which are described on Exhibit A, attached hereto and incorporated herein by this reference (“Premises”), and the businesses conducted at such Premises, including, without limitation, all present and after-acquired goods, accounts, documents, instruments, money, deposit accounts, chattel paper, inventory, equipment, supporting obligations, investment property, letter of credit rights, and general intangibles; and

B. Debtor’s entire right, title and interest in and to all replacements, rents, profits, substitutions and (or) additions to or of those items referred to in subparagraph 2.A. above, and any proceeds arising from the sale and(or) other disposition of the same (including, without limitation, sums payable for loss under insurance covering the Collateral).

3. **Warranties; Protection of Collateral.** Debtor warrants that it is the owner of the Collateral free of all liens except the lien created hereby. Debtor agrees that it: (a) will properly maintain, repair and preserve the Collateral and insure the same against casualty loss by a policy of insurance covering such risks and in such amount as the Secured Party may require, with loss payable to Secured Party and will furnish certificates acceptable to Secured Party; (b) will pay in timely fashion all taxes which may become a lien on the Collateral; (c) except with Secured Party's prior written consent, Debtor will make no sale, contract to sell, lease, encumbrance or other disposition of the Collateral nor change its physical location from the Premises above designated; (d) will use the Collateral lawfully and only within insurance coverage and not use the Collateral so as to cause or result in any waste, unreasonable deterioration or depreciation; (e) will permit Secured Party to enter on Debtor's property and to inspect the Collateral at any reasonable time; (f) will not, with the exception of sales of inventory in the ordinary course of business, remove the Collateral from the Premises without the consent of Secured Party except when reasonably necessary for repair or to replace obsolete or worn out items of Collateral; and (g) will execute any additional agreements, assignments or documents that may be deemed necessary or advisable by Secured Party to effectuate the purpose of this Agreement and the protection of the Collateral.

4. **Delivery and Perfection.** Debtor agrees to execute and deliver to Secured Party any other documents reasonably requested by Secured Party to create, maintain, perfect, or assure the priority of the security interest granted above. Debtor hereby appoints Secured Party as its agent and attorney-in-fact to execute and deliver documents and to take all other actions (to the extent permitted by law) in Debtor's name and on Debtor's behalf that Secured Party may deem necessary or advisable to create, maintain, perfect, assure the priority of, or foreclose its security interest in and lien on the Collateral. This appointment is coupled with an interest and is irrevocable as long as any of the Indebtedness remains outstanding.

5. **Default.** The following shall constitute a default by Debtor hereunder:

A. Any failure to comply with the provisions of the Franchise Agreement, this Agreement, or any other agreement with Secured Party, or to perform any covenant contained herein.

B. Any default by Debtor under the Note or any failure to pay when due any portion of the Indebtedness, including, without limitation, any interest payable thereunder.

C. Any loss, theft, substantial damage or destruction of the Collateral or issuance of attachment, levy, garnishment or judicial process with respect to the Collateral.

D. Insolvency, bankruptcy, business failure, assignment for benefit of creditors or appointment of a receiver for Debtor or its property.

E. Secured Party deeming itself insecure, believing in good faith that the prospect of payment of the Indebtedness (or any portion thereof) or of performance of this Agreement, or any covenant contained herein, is impaired.

6. **Rights and Remedies.** In the event of a default hereunder, Secured Party shall have and shall otherwise be entitled to all rights and remedies provided for or allowed under law. In accordance with the foregoing, and without limitation, Secured Party shall be entitled to:

A. Take possession of and protect the Collateral, including the right to remove all persons from the Premises and take sole possession thereof.

B. If Secured Party is not then in possession of the Collateral, to require Debtor or any other person in possession of the Collateral to assemble it at Debtor's expenses and make it available to Secured

Party at a reasonably convenient place, to be designated by Secured Party.

C. Retain the Collateral in satisfaction of Debtor's obligations, or dispose of the Collateral by public or private sale (at which sale the Secured Party may be a buyer), or commence operation of the Business for Debtor's account. Any sale or operation of the Business shall be deemed to be on Debtor's account unless Secured Party gives Debtor written notice of intent to retain the Collateral in satisfaction of Debtor's obligations. The proceeds of sale or operation for Debtor's account shall be applied in total or partial satisfaction of Debtor's obligations to Secured Party and for Secured Party's costs incurred in proceeding under this paragraph. All proceeds shall be applied first to cover Secured Party's costs, and second to satisfy Debtor's obligations to Secured Party. To the extent there is still any deficiency in the amount Secured Party is owed, Secured Party may collect the same from Debtor, and, to the extent that any excess proceeds exist (after the application of such proceeds as provided for herein and under the law), Secured Party shall pay the same to Debtor.

D. Declare any and all amounts outstanding under the Note to be immediately due and payable.

E. Reduce any claim against Debtor to judgment and enforce any such judgment against Debtor.

F. Take such steps as it may deem appropriate to foreclose upon or otherwise enforce the security interest(s) and lien of this Agreement to secure payment and performance of the Debtor's obligations under this Agreement and the Note.

G. Exercise any and all other rights and remedies available at law or equity or otherwise to Secured Party under this Agreement or the Note.

7. **Nonwaiver.** No delay or omission to exercise any right, power, or remedy accruing to Secured Party upon any breach or default of Debtor under this Agreement shall impair any such right, power, or remedy of Secured Party, nor shall it be construed to be a waiver of any such breach thereafter occurring, nor shall any waiver of any single breach or default theretofore occurring be deemed a waiver of any other breach or default. Any waiver, permit, consent, or approval of any kind under this Agreement, or any waiver on the part of the Secured Party of any provision or condition of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law, or otherwise afforded to Secured Party, shall be cumulative and not alternative.

8. **Notices.** Unless otherwise specifically provided in this Agreement, all notices, demands, or other communications given hereunder will be in writing and pursuant to section 21 of the Franchise Agreement.

9. **Miscellaneous.**

A. This Agreement has been negotiated at arm's length and between persons sophisticated and knowledgeable in the manners dealt with in this Agreement. In addition each party has had the opportunity to consult with experienced and knowledgeable legal counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Agreement against the party that has drafted it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the purpose of the parties and this Agreement.

B. In the event of any dispute arising out of this Agreement, or concerning the meaning or interpretation of any provision contained herein, the losing party shall pay the prevailing party's costs and expenses incurred in any action, arbitration, mediation, or litigation, including without limitation court costs

and reasonable attorneys' fees and disbursements.

C. Any provisions of this Agreement which may be prohibited by law or otherwise held invalid shall be ineffective only to the extent of such prohibition or invalidity and shall not invalidate or otherwise render ineffective the remaining provisions of this Agreement.

D. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland. Sole and proper venue for any action shall be in the state and federal courts in Maryland.

E. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

DEBTOR:

By: _____

Its: _____

EXHIBIT A TO SECURITY AGREEMENT

Premises:

EXHIBIT C
RENEWAL ADDENDUM

**RENEWAL ADDENDUM TO THE
COLOR WORLD HOUSEPAINTING FRANCHISE AGREEMENT**

THIS RENEWAL ADDENDUM (“Addendum”) to the Color World Housepainting Franchise Agreement dated as of _____, 20__ (“**Franchise Agreement**”) by and between **Color World New Franchise Systems, LLC**, a Delaware limited liability company (“**Franchisor**”), _____, a [state/entity type] (“**Franchisee**”), and _____ ([collectively,] “**Guarantor**”), is entered into simultaneously with the Franchise Agreement.

RECITALS

A. Franchisor and Franchisee are parties to a Color World Housepainting Franchise Agreement dated _____, 20__ (“**Prior Agreement**”) under which Franchisor granted Franchisee the right to operate the Franchised Business at the Approved Location. The term of the Prior Agreement has expired or will expire soon.

B. Franchisor and Franchisee are executing the Franchise Agreement to renew the rights granted to Franchisee under the Prior Agreement.

C. The individual(s) identified above as “Guarantor,” guaranteed Franchisee’s obligations under the Franchise Agreement (the “**Guaranty**”).

D. The parties desire to modify certain provisions of the Franchise Agreement as reflected in this Addendum.

NOW THEREFORE, in consideration of the mutual covenants, agreements and obligations set forth below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

1. **Pre-Opening Obligations Deleted.** Since Franchisee has been operating the Franchised Business pursuant to the Prior Agreement, the parties acknowledge and agree that no provisions of the Franchise Agreement that relate to pre-opening obligations of either party shall be applicable. Franchisee remains required to comply with the conditions for renewal under the Prior Agreement.

2. **Term.** The text of Section 3 of the Franchise Agreement is deleted and replaced with the following:

*“This Agreement will expire on the anniversary of the Agreement Date specified in the Brand Appendix (the “**Expiration Date**”). You will not have an opportunity to renew your franchise rights when the term expires.*”

3. **Renewal Fee.** Simultaneously with the execution of this Addendum, Franchisee shall pay Franchisor a renewal fee in the amount of _____.

4. **Indemnification.** The indemnification obligations under the Prior Agreement survive the expiration of the Prior Agreement.

5. **Release by Franchisee and Guarantor.** In order to induce Franchisor to renew the Franchise Agreement, Franchisee (on behalf of itself and its parent, subsidiaries and affiliates and their respective past and present members, officers, directors, shareholders, agents, and employees, in their corporate and individual capacities) and Guarantor (each on behalf of themselves and their respective heirs, representatives, successors and assigns) (collectively, “**Franchisee Releasers**”) freely and without any

influence, forever release and covenant not to sue Franchisor, its parent, subsidiaries and affiliates, and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities (collectively, “**Franchisor Releasees**”), with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, known or unknown, vested or contingent, suspected or unsuspected (collectively, “**claims**”), that any Franchisee Releasor now owns or holds or may at any time have owned or held, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to the Franchise Agreement, the Prior Agreement, and all other agreements between any Franchisee Releasor and any Franchisor Releasee, the sale of franchises to any Franchisee Releasor, the development and operation of the Franchised Business, and each Franchisor Releasee’s performance of its obligations under the Prior Agreement and any other agreement between any Franchisor Releasee and any Franchisee Releasor. Franchisee and Guarantor (on behalf of themselves and the Franchisee Releasors) agree that fair consideration has been given by Franchisor for this release, and they fully understand that this is a negotiated, complete and final release of all of their claims.

FRANCHISEE AND GUARANTOR EACH, ON BEHALF OF ITSELF AND THE FRANCHISEE RELEASORS, WAIVE ANY RIGHTS AND BENEFITS CONFERRED BY ANY APPLICABLE PROVISION OF LAW EXISTING UNDER ANY FEDERAL, STATE OR POLITICAL SUBDIVISION THEREOF WHICH WOULD INVALIDATE ALL OR ANY PORTION OF THE RELEASE CONTAINED IN THIS AGREEMENT BECAUSE SUCH RELEASE MAY EXTEND TO CLAIMS THAT THE FRANCHISEE RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT THE TIME OF EXECUTION OF THIS AGREEMENT.

IF THE FRANCHISE TO WHICH THIS RENEWAL ADDENDUM APPLIES OR IF ANY FRANCHISEE RELEASORS ARE LOCATED IN CALIFORNIA, THE FRANCHISEE RELEASORS EXPRESSLY WAIVE AND RELINQUISH ALL RIGHTS AND BENEFITS WHICH IT/HE/SHE MAY NOW HAVE OR IN THE FUTURE HAVE UNDER AND BY VIRTUE OF CALIFORNIA CIVIL CODE SECTION 1542. FRANCHISEE RELEASORS DO SO UNDERSTANDING THE SIGNIFICANCE AND CONSEQUENCE OF SUCH SPECIFIC WAIVER. SECTION 1542 PROVIDES THAT “[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.” FOR THE PURPOSE OF IMPLEMENTING A GENERAL RELEASE AND DISCHARGE AS DESCRIBED HEREIN, FRANCHISEE RELEASORS EXPRESSLY ACKNOWLEDGE THAT THIS AGREEMENT IS INTENDED TO INCLUDE IN ITS EFFECT, WITHOUT LIMITATION, ALL CLAIMS WHICH RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT THE TIME OF EXECUTION HEREOF, AND THAT THIS AGREEMENT CONTEMPLATES THE EXTINGUISHMENT OF ANY SUCH CLAIMS.

6. **Guaranty Remains in Effect.** Guarantor agrees that none of the amendments, modifications or supplements to the Franchise Agreement set forth above shall release or discharge them from their obligations under the Guaranty and that the Guaranty shall be and remain in full force and effect.

7. **Capitalized Terms.** Any capitalized term that is not defined in this Addendum shall have the meaning given to it in the Franchise Agreement.

8. **Limited Modification.** Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

9. **Counterparts.** The parties may sign this Agreement in counterparts and each such counterpart may be delivered to the other parties by facsimile or by other electronic copy (such as an accurate PDF copy of the signature page sent by e-mail), and when taken together with all other identical copies of this Agreement also signed in counterpart, shall be considered as one agreement.

IN WITNESS WHEREOF, the parties have executed this Addendum, simultaneously with the Franchise Agreement.

FRANCHISOR

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

GUARANTOR:

By: _____

Name: _____, in their
individual capacity

Date: _____

EXHIBIT D
SAMPLE OF GENERAL RELEASE

**SAMPLE OF RELEASE TO BE SIGNED WHEN YOU RENEW OR
TRANSFER A FRANCHISED BUSINESS**

Note: Where required by state law, this Release will be modified so that it does not apply to your rights under the state law. Please see Exhibit K to the disclosure document.

GENERAL RELEASE

THIS GENERAL RELEASE is signed by: (i) Color World New Franchise Systems, LLC (“**Franchisor**”); (ii) the Color World Housepainting franchisee named at the end of the document (“**Franchisee**” or “**you**”); and (iii) Franchisee’s owners (the “**Owners**”) as an express condition of Franchisee and/or the Owners renewing or transferring their Color World Housepainting franchise.

1. **Release.** You and each of the Owners, on behalf of yourselves and all past, present and future parents, subsidiaries, shareholders, members, partners, managers, directors, officers, employees, successors, assigns, agents and legal representatives, and any of the aforementioned persons’ heirs, executors, administrators or personal representatives, and all other persons acting on your behalf or claiming under you (collectively, the “**Franchisee Parties**”), hereby release and forever discharge Franchisor, its affiliates, and their respective past and present officers, directors, shareholders, members, parents, subsidiaries, affiliates, agents, employees, attorneys, insurers, representatives, predecessors, successors, and assigns, and each of them, from any and all claims, debts, liabilities, demands, obligations, costs, expenses, suits, actions, and causes of action, of whatever nature, known or unknown, suspected or unsuspected, vested or contingent (collectively, “**Claims**”) that the Franchisee Parties ever had, now have, or may in the future have, arising out of or relating to any act, omission or event occurring on or before the date of this General Release.

2. **Risk of changed facts.** You and the Owners understand that the facts in respect of which the release in Section 1 is given may turn out to be different from the facts that you and the Owners now know or believe to be true. You and the Owners, on behalf of yourselves and all other Franchisee Parties, hereby accept the risk of the facts turning out to be different and agree that the release will nevertheless be effective and not subject to termination or rescission by virtue of any such difference in facts.

3. **No prior assignment.** You and the Owners, for yourselves and on behalf of all other Franchisee Parties, represent and warrant that the Franchisee Parties have not assigned or transferred, or purported to assign or transfer, any Claim released under Section 1 above to any person or business entity that is not a Franchisee Party.

4. **Covenant not to sue.** You and the Owners, for yourselves and on behalf of all other Franchisee Parties, promise not to initiate, prosecute, encourage, assist, or (except as required by law) participate in any civil, criminal, or administrative proceeding or investigation in any court, agency, or other forum against any person or entity released under Section 1 with respect to any Claim released under Section 1.

5. **Complete defense.** You and each of the Owners: (i) acknowledges that this General Release will be a complete defense to any Claim released under Section 1 above; and (ii) consents to the entry of a temporary or permanent injunction to prevent or end the assertion of any such Claim.

6. Authorization. You and the Owners represent and warrant that the person signing this General Release on behalf of Franchisee is authorized to do so. You and the Owners also represent and warrant that you and the Owners have the authority to enter into this General Release on behalf of the other Franchisee Parties.

7. California Acknowledgment. If you or the franchise to which this General Release relates is located in California, you and the Owners understand and agree that this release extends to all claims, and you and they expressly waive all rights under Section 1542 of the Civil Code of the State of California, which provides:

“A general release does not extend to claims which 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.”

FRANCHISOR:

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

(Print name of company)

By: _____

Print Name: _____

Title: _____

OWNERS:

EXHIBIT E
QUESTIONNAIRE

**QUESTIONNAIRE TO BE COMPLETED BEFORE
SIGNING AGREEMENT**

You are about to enter into a Franchise Agreement with Color World New Franchise Systems, LLC (“we,” “us,” or “our”). The purpose of this Questionnaire is to confirm that you understand the terms of the agreement and that no unauthorized statements or promises have been made to you. Please review each of the following questions and statements carefully and provide honest and complete responses to each.

Note: If you are purchasing an existing franchise from an existing franchisee, you may have received information from the transferring franchisee, who is not our employee or representative. The questions below do not apply to any communications that you had with the transferring franchisee.

1. Did you receive and give us a signed Receipt for our Franchise Disclosure Document dated January 27, 2022 (the “FDD”)? _____ Yes _____ No

2. Has any person representing our company (either an employee or an outside person) given you information that is inconsistent with the information in the FDD concerning the investment necessary to start a Color World Housepainting franchise? If the answer is “yes,” please (a) identify the person, and (b) describe the information you received from that person in detail below. If the answer is “no,” please write “NONE” below:

3. Has any person representing our company given you information that is inconsistent with the information in the FDD concerning the financial performance of Color World Housepainting franchises? If the answer is “yes,” please (a) identify the person, and (b) describe the information you received from that person in detail below. If the answer is “no,” please write “NONE” below:

4. Has any person representing our company given you any other information that is inconsistent with the FDD and is influencing your decision to sign the Franchise Agreement? If the answer is “yes,” please (a) identify the person, and (b) describe the nature of that information in detail below. If the answer is “no,” please write “NONE” below:

* * *

Please understand that your responses to these questions are important to us and that we will rely on them. By signing this Questionnaire, you are representing that you have responded truthfully to the above questions.

FRANCHISE APPLICANT

By: _____

Name: _____

Date: _____

EXHIBIT F

FRANCHISEES AS OF DECEMBER 31, 2020

ACTIVE FRANCHISEES

As of December 31, 2020

<u>Name</u>	<u>Business Address</u>	<u>Phone</u>	<u># Territories</u>
Alabama			
Gary Sheffer	528 Oxford Cir, Birmingham, AL 35209	205-253-9795	3
California			
Mary Martinez JKMT Inc	1244 E. Mardell Ave., Orange, CA 92866	(714)308-4199	3
Colorado			
Justin Wong	7198 E Euclid Dr Centennial, CO 80111	(503) 709-5239	5
Marissa Prescott Prescott Enterprises	9138 W Maplewood Dr Littleton, CO 80123	720-726-0722	1
Florida			
Robert Kroupa Bobby's Start Up LLC	6530 Bowline Drive Sarasota, FL 34231	636-290-3770	2
Georgia			
Evette Hunter Hunter High Expectations LLC	714 Coventry Ave Grovetown, GA 30813	703-537-6855	3
Shelley & Harvey Kiley	995 Vintage Club Dr Duluth, GA 30097	440-823-0826	3
Indiana			
Lori Garrett	8999 Beall St. Dyer, IN 46311	708-769-5535	2
Bill Schwertfeger PAINTU247,LLC	11255 Guy st. Fishers, IN 46038	317.845.6410	3
Illinois			
Lori Garrett	8999 Beall St. Dyer, IN 46311	708-769-5535	3
Kentucky			
Edward Morris Morris Industrial LLC	2651 Drayton Drive Louisville, KY 40205	502-544-4018	3
Damian Peduto Blue Roan Paints Inc	480 Lexington Rd #172 Versailles, KY 40383	859-469-2361	1
Michigan			
Rehan Khan Equisite Painting Inc	55624 Francis Drive Shelby Township, MI 48316	(309) 992-1004	3
Nebraska			
Nick Bock	9312 S 31 st St Lincoln, NE 68516	402-430-5889	4
New York			

<u>Name</u>	<u>Business Address</u>	<u>Phone</u>	<u># Territories</u>
Mark Merchant Jacmar Contracting LLC	10 Milano Ct Croton-On-Hudson, NY 10520	(917) 693-8398	5
North Carolina			
Scott Bloomer Color the Triangle, LLC	302 South Mason Street Apex, NC 27502	919-924-7465	6
Derek Burns TurtleVenture Company	4130 Kellybrook Drive Concord, North Carolina 28025	(704) 839-9089	5
Alejandro Baeza Architekton LLC	1424 Rosehill Dr Waxhaw, NC 28173	(704) 288-7909	3
Ohio			
RNO Enterprises, LLC Ryan Beery	6 E Lakeview Dr., #26 Cincinnati, OH 45227	(513)334-4009	2
South Carolina			
Harper Grier	5 Peninsula Ct Simpsonville, SC 29681	864-814-9121	2
Texas			
Jeff Hendricks JNA Ventures, LLC	565 Peakside Circle Dripping Springs, TX 78620	214-336-1016	5
Melissa Burrell and Issaka Agbere	14363 Edgemere Blvd. Apt. 2204 El Paso, TX 79938	(412) 606-0372 (917) 557-3237	3
David Gardner	7325 Brady Oaks Dr Fort Worth, TX 76135	405-626-2155	3
Brian White Banff Adventures Company	20223 Hampshire Rocks Dr Katy, TX 77450	832-746-4432	5

FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPENED

As of December 31, 2020

<u>Name</u>	<u>Business Address</u>	<u>Phone</u>	<u># Territories</u>
Carolos Rodriguez	8800 Woodway Dr. Apt 11 Houston, TX 77063-2300	832-741-4270	1

EXHIBIT G

FRANCHISEES WHO EXITED A FRANCHISE IN 2020

FRANCHISEES WHO EXITED A FRANCHISE IN 2020

<u>Name</u>	<u>LAST KNOWN CONTACT INFORMATION</u>	
	<u>Street Address</u>	<u>Phone</u>
Robert Kroupa Bobby's Start Up LLC (3 territories)	6530 Bowline Drive Sarasota, FL 34231	636-290-3770
Kalie and Zach Beutler Beutler Painting, LLC (4 territories)	20814 Frances Circle Elkhorn, NE 68022	402-416-9271
Paul Estrada My 5 Painters Inc (3 territories)	3106 Whisper Brook San Antonio, TX 78230	210-849-1700
Brad White (2 territories)	2614 Orleans St. Bellingham, WA 98226	(250)681-3375

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

EXHIBIT H
OPERATIONS MANUAL TABLE OF CONTENTS

OPERATIONS MANUAL TABLE OF CONTENTS

	Introduction	1 page
Chapter 1	Insurance Requirements	1 page
Chapter 2	Business Compliance	1 page
Chapter 3	Sales	1 page
Chapter 4	Services Offered	1 page
Chapter 5	Subcontractors Hiring, Managing, and Recruiting	1 page
Chapter 6	Marketing	1 page
Chapter 7	Digital Media Policy	3 pages
Chapter 8	Brand Standards	2 pages
Chapter 9	Advertising	1 page
Chapter 10	Approved Vendors	1 page
Chapter 11	Vehicle Wraps and Equipment	4 pages
Chapter 12	Call Center	1 page
Chapter 13	Business Plan	1 page
Chapter 14	Conference	1 page
	Contact Guide	1 page
	Revision Log	

EXHIBIT I
FINANCIAL STATEMENTS

Villa BidCo Inc. and Subsidiaries

**Consolidated Financial Statements
December 31, 2020 and 2019**

Villa BidCo Inc. and Subsidiaries

Index

December 31, 2020 and 2019

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Balance Sheets	2
Statements of Comprehensive Loss	3
Statements of Changes in Stockholder's Equity	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-34



Report of Independent Auditors

To the Board of Directors of Villa BidCo Inc.

We have audited the accompanying consolidated financial statements of Villa BidCo Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive loss, of changes in stockholder's equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Villa BidCo Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 14, 2021

Villa BidCo Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 14,128,107	\$ 13,248,233
Restricted cash	939,899	771,009
Accounts receivable, net	18,223,603	13,606,358
Inventory, net	4,938,589	5,032,949
Prepaid expenses and other current assets	5,436,252	5,332,574
Total current assets	<u>43,666,450</u>	<u>37,991,123</u>
Property and equipment, net	24,274,315	13,651,877
Intangible assets, net	426,147,962	421,244,139
Goodwill	342,008,140	307,634,579
Other assets	8,586,717	4,872,569
Total assets	<u>\$ 844,683,584</u>	<u>\$ 785,394,287</u>
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	\$ 6,120,478	\$ 8,357,867
Accrued and other liabilities	21,414,978	12,548,467
Deferred revenue	6,427,072	9,132,259
Current maturities on long-term debt	4,130,030	2,601,230
Total current liabilities	<u>38,092,558</u>	<u>32,639,823</u>
Long-term debt, net	366,574,903	281,917,631
Deferred tax liability, net	31,064,556	33,334,886
Other long-term liabilities	19,917,357	13,400,675
Total liabilities	<u>455,649,374</u>	<u>361,293,015</u>
Stockholder's equity	<u>389,034,210</u>	<u>424,101,272</u>
Total liabilities and stockholder's equity	<u>\$ 844,683,584</u>	<u>\$ 785,394,287</u>

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues		
Franchise service fees	\$ 96,940,926	\$ 94,299,622
Franchise sales fees	2,860,024	1,465,076
Residential services	117,749,632	73,214,177
Other revenues	21,646,846	13,642,201
Total revenues	<u>239,197,428</u>	<u>182,621,076</u>
Costs and expenses		
Franchise support expenses	55,586,822	53,233,160
Franchise sales expenses	1,991,455	256,518
Residential service expenses	97,832,879	66,155,837
General and administrative expenses	41,945,352	41,144,134
Transaction costs	4,095,213	7,449,491
Depreciation and amortization	32,158,838	26,044,722
Total costs and expenses	<u>233,610,559</u>	<u>194,283,862</u>
Operating income (loss)	5,586,869	(11,662,786)
Interest expense, net	<u>(27,181,179)</u>	<u>(22,076,062)</u>
Loss before income taxes	(21,594,310)	(33,738,848)
Income tax benefit	<u>4,958,233</u>	<u>7,054,465</u>
Net loss	<u>(16,636,077)</u>	<u>(26,684,383)</u>
Other comprehensive (loss) income		
Change in foreign currency translation adjustment	<u>(6,582)</u>	<u>3,784</u>
Other comprehensive (loss) income	<u>(6,582)</u>	<u>3,784</u>
Comprehensive loss	<u>\$ (16,642,659)</u>	<u>\$ (26,680,599)</u>

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2020 and 2019

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity
	Units	Amount				
Balances at December 31, 2018	1,000	\$ 1	\$ 272,680,926	\$ (5,016,718)	\$ -	\$ 267,664,209
Impact of change in accounting policy (Note 2)	-	-	-	(43,760)	-	(43,760)
Adjusted Balance at January 1, 2019	<u>1,000</u>	<u>1</u>	<u>272,680,926</u>	<u>(5,060,478)</u>	<u>-</u>	<u>267,620,449</u>
Capital contributions	-	-	177,671,954	-	-	177,671,954
Stock based compensation	-	-	5,489,468	-	-	5,489,468
Other comprehensive income	-	-	-	-	3,784	3,784
Net loss	-	-	-	(26,684,383)	-	(26,684,383)
Balances at December 31, 2019	<u>1,000</u>	<u>1</u>	<u>455,842,348</u>	<u>(31,744,861)</u>	<u>3,784</u>	<u>424,101,272</u>
Capital contributions	-	-	36,134,506	-	-	36,134,506
Stock based compensation	-	-	7,445,702	-	-	7,445,702
Other comprehensive loss	-	-	-	-	(6,582)	(6,582)
Dividend to Partnership	-	-	(62,004,611)	-	-	(62,004,611)
Net loss	-	-	-	(16,636,077)	-	(16,636,077)
Balances at December 31, 2020	<u>1,000</u>	<u>\$ 1</u>	<u>\$ 437,417,945</u>	<u>\$ (48,380,938)</u>	<u>\$ (2,798)</u>	<u>\$ 389,034,210</u>

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net loss	\$ (16,636,077)	(26,684,383)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	32,158,838	26,044,722
Inventory reserve	213,095	-
Bad debt expense	530,149	1,142,194
Bad debt write-off	719,660	-
Noncash stock compensation	7,445,702	5,489,468
(Gain) loss on disposal of property and equipment	(287,617)	12,635
Amortization of deferred loan costs	1,958,508	1,142,557
Deferred taxes	(5,358,233)	(7,104,465)
Earnout liability revaluation	-	2,660,000
Earnout liability payment	-	(3,650,000)
Changes in assets and liabilities		
Accounts receivable	(5,171,290)	(4,037,238)
Inventory	(77,997)	(538,324)
Prepaid expenses and other current assets	150,367	243,088
Other assets	(3,843,325)	(1,635,839)
Accounts payable	(1,592,598)	4,675,855
Accrued liabilities	7,149,082	(2,044,699)
Other liabilities	(6,128,118)	1,656,789
Deferred revenue	4,476,921	5,877,225
Net cash provided by operating activities	<u>15,707,067</u>	<u>3,249,585</u>
Cash flows from investing activities		
Business acquisitions, net of cash acquired	(39,880,577)	(280,998,478)
Purchases of property and equipment	(92,515)	(2,996,522)
Proceeds on disposal of property and equipment	539,463	36,270
Capitalized software development costs	(10,125,721)	(1,299,684)
Purchase of intellectual property	(840,000)	-
Net cash used in investing activities	<u>(50,399,350)</u>	<u>(285,258,414)</u>
Cash flows from financing activities		
Capital contributions	16,134,506	177,671,954
Dividend to Partnership	(62,004,611)	-
Earnout liability payment	-	(1,350,000)
Payments of capital leases	(2,004,192)	(1,100,043)
Borrowings from long-term debt, net of deferred financing cost	176,525,656	123,508,830
Repayments of long-term debt	(92,910,312)	(5,174,671)
Net cash provided by financing activities	<u>35,741,047</u>	<u>293,556,070</u>
Increase in cash and cash equivalents	1,048,764	11,547,241
Cash, restricted cash and cash equivalents		
Beginning of year	<u>14,019,242</u>	<u>2,472,001</u>
End of year	<u>\$ 15,068,006</u>	<u>14,019,242</u>

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Supplemental disclosures of cash flow information		
Interest paid	\$ 24,204,984	20,870,058
Taxes paid, net of refunds	(31,968)	380,900
Supplemental disclosures of non-cash flow information		
Change in indemnification asset	741,396	327,998
Change in uncertain tax position	741,396	327,998
Capital expenditures included in accrued liabilities	1,106,676	-
Capital lease acquisitions	3,199,018	1,794,139
Noncash business acquisition consideration	(20,000,000)	-
Capital contribution – rollover equity	20,000,000	-
Reconciliation of cash, restricted cash, and cash equivalents reported in the consolidated balance sheet		
Cash and cash equivalents	\$ 14,128,107	13,248,233
Restricted cash	939,899	771,009
	<hr/>	<hr/>
Total cash, restricted cash, and cash equivalents shown in the statement of cash flows	\$ 15,068,006	14,019,242
	<hr/>	<hr/>

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

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. Organization and Description of Business

Villa BidCo Inc. (“the Company” or “Villa BidCo”) is the parent company of a number of franchisors and related businesses operating in the United States and internationally. The Company is wholly owned by Villa Aggregator LP (the “Partnership”) through Villa TopCo Inc. Upon its formation on September 21, 2018, Villa BidCo entered into a securities purchase agreement to acquire the outstanding shares of Authority Brands which include: The Cleaning Authority, LLC (“The Cleaning Authority”), The Cleaning Authority, Inc. (“The Cleaning Authority Canada”), Mighty Maids, LLC (“TCA of Columbia, MD”), Homewatch CareGivers, LLC (“Homewatch CareGivers”), Homewatch Canada, Inc. (“Homewatch Canada”), and Homewatch CareGivers International, Inc. (“Homewatch International”). Subsequent to the acquisition of Authority Brands, during 2018 Villa BidCo acquired 100% of the interests in Mosquito Squad Franchising, LLC (“Mosquito Squad”) and Pool Water Holdings, LLC (“America’s Swimming Pool” or “ASP”) and its subsidiaries which included: ASP Franchising, LLC, ASP Aviation, LLC and Greeneland, LLC.

During 2019, Villa BidCo acquired 100% of Clockwork, Inc. and Direct Energy US Home Services, Inc., together with their Subsidiaries (“Clockwork”) which include: Benjamin Franklin Franchising, LLC, Mister Sparky Franchising, LLC, One Hour Air Conditioning Franchising, LLC, BuyMax LLC, Successware, Inc., Direct Energy Services Retail Inc., Quality A/C Service, LLC, New Millenium Academy LLC, Clockwork IP LLC and UWIN LLC (Note 3).

During 2020, the Company acquired 100% of the assets of Monster Topco LLC (“Monster”) and 100% of the outstanding equity interests of STOP Franchising, Inc. (“STOP”) (Note 3).

As of December 31, 2020, the Company owned and operated 16 franchise locations. Expenses related to the management and operation of these owned businesses are included in the residential service expenses line in the consolidated statements of comprehensive loss for the years ended December 31, 2020 and 2019.

Franchised outlets as of December 31, 2020 and 2019 are summarized as follows:

	Franchises as of December 31, 2019	Acquired during the period	Opened during the period	Closed during the period	Reacquired by franchisor	Franchises as of December 31, 2020
Ben Franklin	257	-	1	(12)	-	246
Mister Sparky	103	-	6	(6)	-	103
One Hour	341	-	15	(22)	(12)	322
Homewatch	185	-	25	(12)	-	198
Mosquito Squad	226	-	7	(11)	(1)	221
The Cleaning Authority	215	-	2	(10)	-	207
America’s Swimming Pool	311	-	37	(11)	-	337
Monster	-	148	43	(8)	-	183
STOP	-	30	5	(7)	-	28
	<u>1,638</u>	<u>178</u>	<u>141</u>	<u>(99)</u>	<u>(13)</u>	<u>1,845</u>

2. Summary of Significant Accounting Policies

Financial Statement Preparation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The areas that require the use of significant management estimates include purchase price allocation, deferred income taxes and stock-based compensation. Actual results could differ from those estimates.

The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts COVID-19 as of December 31, 2020 and through the date of this report. The accounting matters assessed included, but were not limited to, our allowance for doubtful accounts, stock-based compensation, the carrying value of our goodwill and other long-lived assets, and revenue recognition. While there was not a material impact to our consolidated financial statements as of and for the year ended December 31, 2020, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our consolidated financial statements in future reporting periods.

Revenue Recognition

On January 1, 2019, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) "ASC 606," and several related amendments, issued by the Financial Accounting Standards Board ("FASB"). The Company adopted ASC 606 using the modified retrospective method to all contracts not completed as of January 1, 2019. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings as of January 1, 2019.

Upon adoption, revenue is recognized in accordance with a five-step revenue model, as follows: identifying the contract with the customer; identifying the performance obligations in the contract; determining the transaction price; allocating the transaction price to the performance obligations; and recognizing revenue when (or as) the entity satisfies a performance obligation.

The following describes principal activities from which the Company generates its revenues and the associated revenue recognition policies in 2020:

Franchise Revenue

Franchise revenue consists of royalty, national advertising, local advertising, software fees, call center and initial franchise fees charged to franchisees. The Company administers the national advertising fund ("NAF") which is funded by the franchisees and is used to pay for the costs of preparing and producing various advertising and marketing materials for the franchisees.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

The Company's primary performance obligation under franchise agreements is granting rights to use the Company's intellectual property over the term of the franchise agreement. Brand royalty and NAF fees are primarily based on a percentage of franchisee sales and the Company recognizes revenue for these fees as they become billable when the underlying franchisee sales occur. These fees are generally billed on a monthly basis. Fixed franchise and NAF fees, which are included in certain brand franchise agreements, are recognized on a straight-line basis over the franchise agreement term. Initial franchise fees are not associated with a service distinct from the overall initial franchise right performance obligation and are therefore recognized on a straight-line basis over the franchise agreement term. The advertising funded through the NAF benefits the franchise brands overall, rather than the individual franchise owners, and therefore is not a performance obligation separate from the overall franchise right. Any underspending of NAF contributions is recorded as accrued and other liabilities on the consolidated balance sheets.

Local advertising, software and call center services provide a distinct benefit from the franchise right and are therefore separate performance obligations. Fees associated with these services are generally billed as a monthly fixed or usage-based amount and are recognized as revenue as the services are performed either on a straight-line basis over the contract term if the fee is fixed or as invoiced if the fee is based on usage.

Franchise revenue, except for initial franchise fees, are included within the franchise services fees line item on the consolidated statements of comprehensive loss. Initial franchise fees are included in franchise sales fees on the consolidated statements of comprehensive loss.

Company-Owned Store Revenue

Revenue from company-owned stores is generally recognized when the services are performed, which typically occurs on a single day. Payment is due within a short period of time after the service has been performed. The Company also offers extended warranties and annual service plans. Revenue associated with these services is recognized on a straight-line basis over the contract term. Fees are generally billed annually in advance and are included in deferred revenue and other long-term liabilities on the consolidated balance sheets until revenue recognition occurs.

Company-owned store revenue is included within the residential services financial statement line item on the consolidated statements of comprehensive loss.

Product Sales Revenue

The Company sells products to franchisee and nonfranchisee customers. Revenue for product sales in which the Company has inventory risk is recognized at a point in time when control transfers to the buyer, which is generally when the product is shipped to the customer. Payment is due within a short period of time after the shipment.

The Company acts as an agent in respect of certain third-party products that are sold through the Company's online platform. The Company has no inventory risk on these products as they are drop shipped to the end customer and the third-party vendor is primarily responsible for fulfilling the order. The Company therefore recognizes revenue at an amount equal to the net fees received after payment to the third-party vendor.

Product sales revenue is included within other revenues on the consolidated statements of comprehensive loss for the years ended December 31, 2020 and 2019.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Obligations arising for returns, refunds, and other assurance warranties are infrequent and are not significant to the consolidated financial statements for the years ended December 31, 2020 and 2019.

Revenue is recognized net of any taxes collected from customers which are subsequently remitted to taxing authorities. These taxes are recorded as a liability when the amounts are billed to franchisees and the liability is relieved when payments are made to the respective taxing authority.

Rebates

Rebates received from third-party vendors in return for the Company maintaining a buying program that connects the vendors with the Company's franchisee customers are recognized as revenue as they become due, which is generally on a monthly basis. Rebates are calculated as a percentage of third-party sales and are included within the other revenue line on the consolidated statements of comprehensive loss.

Contract Balances

Contract assets are amounts for which revenue has been recognized but the Company's right to consideration is conditional upon performing further service. Current contract assets are included in prepaid expenses and other current assets. The long-term contract asset balance is included in other assets on the consolidated balance sheets.

Contract liabilities, in accordance with ASC 606, are amounts collected, or an unconditional right to consideration (receivable) in advance of delivery of goods or services. Contract liabilities are typically related to billed amounts for obligations that have not yet been satisfied and therefore may not be recognized until conditions of the contract are met. The current portion of contract liabilities is included in deferred revenue on the consolidated balance sheets. Long-term contract liabilities are included in other long-term liabilities on the consolidated balance sheets.

The following table presents closing balances of contract assets and liabilities as of December 31, 2020 and 2019:

	Balance at December 31, 2020	Balance at December 31, 2019	Location on the Consolidated Balance Sheets
Contract assets - short-term	\$ -	\$ 264,209	Prepaid expenses and other current assets
Contract assets - long-term	406,306	732,560	Other assets
Contract liabilities - short-term	5,475,870	1,209,721	Deferred revenue
Contract liabilities - long-term	14,542,113	7,004,485	Other long-term liabilities

Costs Incurred to Obtain a Contract with Customers

The Company capitalizes commissions paid to brokers that are a direct result of obtaining a new franchise agreement and amortizes these costs over the franchise agreement period. The short-term and long-term portion of the deferred costs related to these arrangements are included in prepaid expenses and other current assets and in other assets, respectively, on the consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management determines the allowance for doubtful accounts based on its assessment

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

of the current status of individual accounts. Uncollectible accounts are written off against the allowance when collection of the amounts appears doubtful. As of December 31, 2020 and December 31, 2019, the allowance for doubtful accounts was \$1,983,495 and \$1,480,567, respectively. During the year ended December 31, 2020, the Company had write-offs of uncollectible accounts of \$719,660. There were no write-offs during the year ended December 31, 2019.

Cash and Cash Equivalents

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents. Cash consists primarily of cash on hand and cash on deposit. The Company maintains its cash in banks in which deposits may, from time to time, exceed federally insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks related to cash.

In accordance with Accounting Standards Update (“ASU”) 2016-15 Statement of Cash Flows (Topic 230), cash payments made not soon after (defined as more than three months) the acquisition date of a business combination to settle any contingent consideration liabilities, the payments are separated and classified as cash outflows from financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) are classified as financing activities; any excess is classified as operating activities. During 2019 the Company settled and paid contingent consideration in the amount of \$5,000,000 associated with its America’s Swimming Pool acquisition. The payment of the contingent consideration was reflected in the 2019 consolidated cash flows as follows: the amount of the initial fair value of the liability recognized at the acquisition date of \$1,350,000 is included as a financing activity and the remaining payment of \$3,650,000, represents the increase in fair value of the contingent consideration since the acquisition date and is included in operating activities. The Company did not pay any contingent consideration during the year ended December 31, 2020.

Restricted Cash and Cash Equivalents

As of December 31, 2020 and 2019, the Company held \$939,899 and \$771,009, respectively, in restricted cash and cash equivalents under the requirements of certain corporate insurance plans and as collateral in connection with the borrowing facilities.

Inventory

Inventory consists of products, materials and equipment to be sold and is stated at the lower of cost or net realizable value, with cost determined using weighted-average, on a first-in, first-out method. Inventory is assessed on annual basis for slow moving and obsolete items and as of December, 31 2020, the Company had an inventory reserve of \$213,095. As of December 31, 2019, no reserve was deemed to be required.

Property and Equipment

Property, and equipment is stated at historical cost and depreciated using the straight-line method over the estimated useful life of the assets. Additions and betterments are capitalized, maintenance and repairs which do not extend the useful life of the assets are expensed as incurred in general and administrative expenses on the consolidated statements of comprehensive loss.

Capitalized Software, Net

The Company capitalizes certain costs incurred in the development of various internally used software platforms, in accordance with ASC 350-40, “Internal-Use Software”, which requires certain costs incurred during the application development stage be capitalized and other costs incurred

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

during the preliminary project and post-implementation stages be expensed as they are incurred. The Company also develops software platforms and mobile applications to be sold and capitalizes costs in accordance with ASC 985-20, "Software - Cost of Software to be Sold, Leased or Marketed", which requires development costs incurred in the research and development of new software products be expensed as incurred until technological feasibility, in the form of a working model, has been established, at which time such costs are capitalized until the product is available for general release to customers.

The Company capitalizes software development costs when the preliminary project stage is completed and the technological feasibility is established. Capitalized costs include personnel and related expenses for employees and third-party contractors who are directly associated with and who devote time to internal-use software projects. Any costs incurred to significantly upgrade or enhance the Company's software platform are also capitalized. Costs related to the preliminary project activities and post-implementation support activities are expensed as incurred. Amortization of capitalized software costs accounted for in accordance with ASC 350-40 and ASC 985-20 are recognized in depreciation and amortization and franchise support expenses, respectively, on the consolidated financial statements using a straight-line method over an estimated useful life of three to five years for mobile applications and software platforms, respectively.

Leases

The Company leases retail locations, office space and equipment. Under ASC 840 "Leases" leases are classified as either operating or capital.

For leases classified as operating, the minimum rental payments over the lease term (including reasonably assured renewal periods) are recognized on a straight-line basis over the lease term. The excess of straight-line rent expense over scheduled payments is recorded as a deferred rent. Deferred rent as of December 31, 2020 and 2019, was \$386,859 and \$305,084, respectively. Executory costs such as real estate taxes and maintenance, and contingent rentals such as those based on a percentage of sales are recognized as incurred. The lease term, which includes all renewal periods that are reasonably assured, begins on the date the Company has access to the leased property. The Company receives contributions from landlords for leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term.

Assets held under capital leases are included in property and equipment on the consolidated balance sheet and are amortized over the lesser of the term of the related lease or the estimated useful life of the asset.

Intangible Assets

Intangible assets consist of trademarks, franchise relationships, customer relationships, proprietary processes, and noncompetition agreements. Intangible assets are stated at their estimated fair value at the date of acquisition. Amortization is computed over the estimated useful lives of the related intangible assets using the straight-line method.

Long-lived Assets

In accordance with FASB ASC 360, Accounting for Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment, at least annually, or 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

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 at the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not recognize any impairment charges for the years ended December 31, 2020 and 2019.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of assets and liabilities acquired, including specifically identified intangible assets. Goodwill is not amortized but is tested for impairment annually as of the last day of each fiscal year in line with guidance prescribed by ASU 2021-03 "Accounting Alternative for Evaluating Triggering Events" and evaluated if the facts and circumstances at year end indicate if any triggering event existed.

In conducting impairment testing, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If the Company performs a qualitative assessment and determines that the carrying value more likely than not exceeds the fair value, then the quantitative impairment test is performed, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test. The ultimate outcome of the goodwill impairment assessment will be the same whether the Company chooses to perform the qualitative assessment or proceed directly to the quantitative impairment test.

The Company chose to perform a qualitative impairment test for goodwill as of December 31, 2020 and 2019. The Company determined that the recorded value for goodwill was not impaired.

Deferred Loan Costs

In accordance with ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), the Company capitalizes and defers certain loan costs, which are presented as a reduction of long-term debt on the consolidated balance sheets. These costs are amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Amortization of \$1,958,508 and \$1,142,557 is included in interest expense on the consolidated statements of comprehensive loss for the years ended December 31, 2020 and 2019, respectively. Issuance costs related to undrawn amounts from the Company's delayed draw facility were \$612,220 and \$0 as of December 31, 2020 and 2019, respectively, and included within other assets on the consolidated balance sheet.

Stock Based Compensation

Upon the formation of the Company in 2018, the Partnership established the Villa Aggregator LP Amended and Restated Executive Equity Incentive Plan (the "Plan"), which governs certain stock-based and other incentive compensation with the employees. The Plan provides employees an opportunity to indirectly participate in the distribution of the future profits of the Company.

The awards issued under the Plan (known as Class B Profit Interest Units) are classified as equity awards. Compensation expense is estimated at the grant date based on an award's fair value as calculated by the Monte-Carlo simulation valuation model. Compensation expense is recognized using the graded vesting attribution method over the requisite service period of five years and is included in general and administrative expenses on the consolidated statements of comprehensive loss. The Company made a policy election to recognize forfeitures as they occur.

The Company also provided certain executives with ownership interests in the Partnership (known as Class A-2 Units) in exchange for promissory notes and rollover equity. The promissory notes

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

only have recourse against the employee's Class A-2 units, as such they are considered to be a stock option in accordance with GAAP. In addition, the notes have an interest rate that is based on a third party indexed rate, and therefore the stock option classified as a liability award by the Partnership. Liability classified awards are measured at each reporting date using the intrinsic value model with the related compensation expense is recorded in general and administrative expenses in the consolidated statements of comprehensive loss. Until the stock option is deemed to have been exercised through the repayment of the notes, any distributions on these shares will be deemed compensation expense.

The Company is not the legal obligor of these stock awards. Therefore, the obligation (liability classified award) remains with the Partnership and any stock compensation charges incurred are recognized as additional paid-in capital through a noncash contribution with an offsetting charge to compensation expense.

Taxes

The Company is subject to federal and state income taxes. Accordingly, an income tax provision has been recognized for federal and state income taxes. The Cleaning Authority Canada and Homewatch Canada are Canadian corporations that are subject to Canadian income taxes. For 2020 and 2019, income taxes for The Cleaning Authority Canada and Homewatch Canada were insignificant.

The Company provides for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for financial reporting and for income tax reporting. The deferred tax assets or liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

For balance sheet presentation purposes, the Company nets its deferred tax asset and deferred tax liability positions by tax jurisdiction and classifies the resulting net deferred tax asset and/or net deferred tax liability as noncurrent in accordance with FASB Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes ("ASU 2015-17") on the consolidated balance sheets.

The Company utilizes a two-step approach for recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position will be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. Income taxes are accounted for on an accrual basis.

Advertising Costs

The Company administers the NAF funded by the franchisees for which the associated revenue is recognized in franchise service fees on the consolidated statements of comprehensive loss. The NAF pays for costs of preparing and producing various advertising and marketing materials for the franchisees.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

The NAF advertising expenses are recognized as incurred and are included in franchise support expenses on the consolidated statements of comprehensive loss. NAF expenses for the years ended December 31, 2020 and 2019 were \$14,212,087 and \$13,158,333, respectively.

Non-NAF advertising expenses are recognized as incurred and included in residential service expenses on the consolidated statements of comprehensive loss. For the years ended December 31, 2020 and 2019, \$28,503,456 and \$25,120,502, respectively, was expensed in the consolidated statements of comprehensive loss.

Foreign Currency Translation

The assets and liabilities of foreign operations in Canada, whose functional currency is other than the U.S. dollar, are translated to U.S. dollars at the period end exchange rates and revenues and expenses are translated at average exchange rates for the period. Differences arising from this translation are included in the foreign currency translation adjustment component of accumulated other comprehensive (loss) income.

For all operations, the monetary items denominated in currencies other than the functional currency are remeasured at period-end exchange rates and transaction gains and losses are included in general and administrative expense in the consolidated statements of comprehensive loss. Nonmonetary items are remeasured at historical rates. Impacts resulting from the foreign currency fluctuations were not significant to the consolidated financial statements as of and during the periods presented.

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, accounts receivable, inventory, prepaid expenses, accounts payable, accrued liabilities and deferred franchise fees approximate fair value

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

because of the short maturity of the instruments. The carrying value of long-term debt approximates fair value as the stated interest rates are at market rates.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU 2016-02, as subsequently updated (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. The new standard applies a right-of-use model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Currently these amendments will become effective for the Company beginning January 1, 2022. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments -Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments, which requires the application of a current expected credit loss ("CECL") impairment model to financial assets measured at amortized cost (including trade accounts receivable), net investments in leases, and certain off-balance-sheet credit exposures. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, the CECL model requires financial assets with similar risk characteristics to be analyzed on a collective basis. ASC 326 is effective the Company on January 1, 2023. The Company is in the process of assessing the impact that ASU No. 2016-13 will have on the Company's consolidated financial position, results of operations, cash flows, and disclosures.

Cloud Computing

In August 2018, the FASB issued additional guidance on the accounting for customer's implementation costs incurred in cloud computing arrangements that are service contracts, ASU 2018-15 – Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40). The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The guidance is effective for the Company January 1, 2021 and can be applied retrospectively or prospectively. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12 introduced a number of simplification initiatives by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 is effective for the Company on January 1, 2022, with early adoption permitted. The amendments in the standard

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

would need to be applied on a retrospective basis. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848)." This ASU provides optional means and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or other reference rates expected to be discontinued because of the reference rate reform. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

Franchisor Pre-opening Services

In January 2021, the FASB issued ASU 2021-02, "Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient." The guidance provides a practical expedient for a franchisor that is not a public business entity to account for pre-opening services it provides to a franchisee as distinct from the franchise license if they are consistent with those included in the list of pre-opening services in the guidance. Franchisors that apply the practical expedient may then make an accounting policy election to account for pre-opening services on the list as a single performance obligation. For private company franchisors that have already adopted ASC 606, the guidance is effective in annual periods beginning after 15 December 2020. Full retrospective application to the date ASC 606 was adopted is required to preserve comparability between reporting periods. Early adoption is permitted. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

Goodwill Triggering Event Assessment

In March 2021, the FASB issued ASU 2021-03, "Accounting Alternative for Evaluating Triggering Events". The guidance provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. An entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test as of a date other than the annual reporting date should perform a triggering event evaluation only as of the end of the reporting period. The amendments in this Update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. The Company has early adopted this standard and has applied the relevant guidance for the consolidated financial statements as of and for the year ended December 31, 2020. The adoption of the accounting alternative did not have a significant impact on the Company's consolidated financial statements.

3. Acquisitions

STOP

On November 2, 2020, the Company entered into a purchase and sale agreement to acquire 100% of the outstanding equity interests of STOP Franchising, Inc., for an aggregate net purchase price of \$5,140,165. The transaction was funded with cash held by the Company. STOP is a home restoration franchising company and has been acquired to allow for the expansion of the Company's presence within its home services franchising platform. All goodwill that has been

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

recognized in the acquisition relate to intangible assets that do not qualify for separate recognition. Identified goodwill is not expected to be deductible for tax purposes.

As a result of the transaction, the Company incurred and expensed transaction costs of \$259,499, which are included in transaction costs on the consolidated statements of comprehensive loss.

In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

The purchase price was allocated and funded as follows:

Assets acquired	
Current assets	\$ 276,288
Goodwill	3,791,766
Intangible assets and other assets	1,658,000
Assets acquired	<u>5,726,054</u>
Deferred revenue	(259,000)
Liabilities assumed	<u>(426,173)</u>
Purchase price, net of cash acquired	<u>\$ 5,040,881</u>

Monster

On September 15, 2020, the Company entered into a purchase and sale agreement to acquire 100% of the outstanding assets of Monster Topco LLC., for an aggregate net purchase price of \$54,839,696. The transaction was funded by \$15,000,000 from equity contributions from the Partnership, \$20,440,184 through draws on the existing term loan facility and \$1,980,898 of cash on hand. The transaction also included rollover of equity totaling \$20,000,000. These amounts were used as consideration to the seller and payment of associated transaction costs with any excess funds retained by the Company. Monster is a tree servicing franchising company and has been acquired to allow for the expansion of the Company's presence within its home services franchising platform. All goodwill that has been recognized in the acquisition relate to intangible assets that do not qualify for separate recognition. Identified goodwill is expected to be deductible for tax purposes.

As a result of the transaction, the Company incurred and expensed transaction costs of \$2,581,387, which are included in transaction costs on the consolidated statements of comprehensive loss.

In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The purchase price was allocated as follows:

Assets acquired	
Current assets	714,260
Property and equipment	922,626
Goodwill	29,067,057
Intangible assets and other assets	<u>30,550,000</u>
Assets acquired	61,253,943
Deferred revenue	(6,095,765)
Liabilities assumed	<u>(318,482)</u>
Purchase price	<u>\$ 54,839,696</u>

Clockwork

On May 1, 2019, the Company acquired the equity interests of Clockwork, Inc. and Direct Energy US Home Services, Inc., together with their Subsidiaries (“Clockwork”). Substantially all tangible and intangible assets of Clockwork were acquired for an aggregate purchase price of \$286,098,833. The transaction was funded with \$177,621,954 of cash from equity contributions from the Partnership and an incremental \$124,000,000 term loan under its existing credit agreement. As a result of the transaction, the Company incurred and expensed transaction costs of \$7,449,491, which are included in transaction costs line on the consolidated statements of comprehensive loss. In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

A purchase price allocation was made as of December 31, 2019. During 2020, the Company adjusted the purchase price allocation as follows:

	Preliminary Allocation	Adjustment	Final Allocation
Assets acquired			
Cash	\$ 5,100,356	\$ 87,181	\$ 5,187,537
Current assets	16,377,378	-	16,377,378
Property and equipment	5,013,181	-	5,013,181
Goodwill	124,781,706	1,514,738	126,296,444
Intangible assets and other assets	200,306,000	-	200,306,000
Other long term assets	<u>911,651</u>	<u>-</u>	<u>911,651</u>
Assets acquired	352,490,272	1,601,919	354,092,191
Deferred tax liability	(40,347,137)	(2,724,543)	(43,071,680)
Liabilities assumed	<u>(26,044,302)</u>	<u>1,122,624</u>	<u>(24,921,678)</u>
Purchase price	<u>\$ 286,098,833</u>	<u>\$ -</u>	<u>\$ 286,098,833</u>

The adjustments to the purchase price allocation were made to reflect additional consideration true-ups in accordance with the sale and purchase agreement and to reflect incremental information made available after the purchase price allocation.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

4. Inventory, net

Inventory, net consisted of the following as of December 31, 2020 and 2019:

	2020		
	Gross	Reserve	Net
Products for sale	\$ 2,980,492	\$ (116,752)	\$ 2,863,740
Materials	1,765,052	(84,159)	1,680,893
Equipment	406,140	(12,184)	393,956
Total inventory	<u>\$ 5,151,684</u>	<u>\$ (213,095)</u>	<u>\$ 4,938,589</u>
	2019		
	Gross	Reserve	Net
Products for sale	\$ 3,255,790	\$ -	\$ 3,255,790
Materials	1,654,148	-	1,654,148
Equipment	123,011	-	123,011
Total inventory	<u>\$ 5,032,949</u>	<u>\$ -</u>	<u>\$ 5,032,949</u>

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Notes receivable	\$ 884,503	\$ 669,983
Prepaid expenses	3,549,074	2,669,870
Other	1,002,675	1,992,721
Total prepaid expenses and other current assets	<u>\$ 5,436,252</u>	<u>\$ 5,332,574</u>

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2020 and 2019:

	Estimated Useful Life	2020	2019
Buildings and leasehold improvements	5 - 30 years	\$ 3,863,812	\$ 3,793,684
Software- for internal use	1 - 3 years	2,428,321	2,000,519
Software- to be sold	3 - 5 years	2,316,285	-
Vehicles	2 - 5 years	8,706,179	6,853,254
Office equipment and furniture	2 - 5 years	2,102,585	1,545,933
Machinery, Equipment and tools	2 - 7 years	395,332	142,026
Land		143,300	143,300
Software in development		9,792,874	1,636,674
Total property and equipment		29,748,688	16,115,390
Less: Accumulated depreciation and amortization		(5,474,373)	(2,463,513)
Property and equipment - net		<u>\$ 24,274,315</u>	<u>\$ 13,651,877</u>

As of December 31, 2020, software in development consisted of software for internal use and to be sold of \$1,010,904 and \$8,781,970, respectively. As of December 31, 2019, software in development consisted of software for internal use and to be sold of \$490,420 and \$1,146,254, respectively.

Depreciation and amortization expense recognized in the consolidated statements of comprehensive loss was \$4,014,662 and \$2,290,449, for the years ended December 31, 2020 and 2019, respectively.

7. Other Long-term Assets

Other long-term assets consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Indemnification asset	\$ 1,462,429	\$ 2,203,825
Prepaid commission	2,791,364	995,372
Contract assets	406,306	732,560
Prepaid customer incentive payments	1,433,417	429,546
Notes receivable	1,182,749	169,706
Other	1,310,452	341,560
Total other long-term assets	<u>\$ 8,586,717</u>	<u>\$ 4,872,569</u>

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

8. Intangible Assets and Goodwill

Intangible Assets

Intangible assets consisted of the following as of December 31, 2020 and 2019:

2020					
	Estimated Useful Life	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life
Trademarks	15-25 years	\$ 143,415,979	\$ 9,691,469	\$ 133,724,510	23.4
Franchise relationships	15 years	324,118,398	42,132,808	281,985,590	13.2
Software	10 years	7,500,000	1,250,000	6,250,000	8.3
Customer relationships	4 years	3,848,712	2,152,653	1,696,059	1.8
Proprietary processes	10 years	2,448,561	398,255	2,050,306	8.5
Noncompetition agreements	5 years	523,003	81,506	441,497	4.5
Intangible assets		<u>\$ 481,854,653</u>	<u>\$ 55,706,691</u>	<u>\$ 426,147,962</u>	
2019					
	Estimated Useful Life	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life
Trademarks	15-25 years	\$ 124,610,979	\$ 4,463,188	\$ 120,147,791	24.1
Franchise relationships	15 years	311,094,399	21,158,650	289,935,749	14.1
Software	10 years	7,500,000	500,000	7,000,000	9.3
Customer relationships	4 years	3,758,712	1,194,198	2,564,514	2.7
Proprietary processes	10 years	1,698,561	215,879	1,482,682	8.7
Noncompetition agreements	5 years	144,003	30,600	113,403	4.9
Intangible assets		<u>\$ 448,806,654</u>	<u>\$ 27,562,515</u>	<u>\$ 421,244,139</u>	

Amortization expense was \$28,144,176 and \$23,754,273, for the years ended December 31, 2020 and 2019, respectively.

Estimated amortization expense for the subsequent five years and thereafter is as follows:

2021	\$ 29,432,880
2022	29,178,307
2023	28,491,387
2024	28,445,576
2025	28,419,806
Thereafter	<u>282,180,006</u>
	<u>\$ 426,147,962</u>

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Goodwill

Changes in the net carrying amount of goodwill for the years ended December 31, 2020 and 2019 are as follows:

Balance at December 31, 2018	\$ 182,852,873
Acquisition of Clockwork	<u>124,781,706</u>
Balance at December 31, 2019	307,634,579
Acquisition of Monster	29,067,057
Acquisition of STOP	3,791,766
Clockwork adjustment	<u>1,514,738</u>
Balance at December 31, 2020	<u>\$ 342,008,140</u>

In May 2019, the Company acquired Clockwork and allocated \$124,781,706 of the purchase price to goodwill as of December 31, 2019. The Company revised the associated goodwill from the Clockwork acquisition by increasing it to \$126,296,444 as of December 31, 2020 (Note 3).

During the periods presented, the Company did not record any goodwill impairment charges.

9. Accrued and other liabilities

Accrued and other liabilities consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Employee expenses	\$ 6,950,196	\$ 5,289,963
Rebates	1,309,079	\$ 454,262
Advertising	6,443,145	58,774
Capital expenditures	1,106,676	-
Capital lease obligations	1,810,227	1,584,582
Other	<u>3,795,655</u>	<u>5,160,886</u>
Total accrued and other liabilities	<u>\$ 21,414,978</u>	<u>\$ 12,548,467</u>

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

10. Taxes

Income tax benefit consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Current		
Federal	\$ -	\$ -
State	400,000	50,000
	<u>400,000</u>	<u>50,000</u>
Deferred		
Federal	(4,301,260)	(5,777,898)
State	(1,056,973)	(1,326,567)
	<u>(5,358,233)</u>	<u>(7,104,465)</u>
Income tax benefit	<u>\$ (4,958,233)</u>	<u>\$ (7,054,465)</u>

Deferred income taxes consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Deferred tax assets		
Net operating losses and credits	\$ 14,637,918	\$ 6,198,293
Deferred revenue	3,943,881	4,090,522
Interest limitation	2,202,169	3,150,430
Lease obligation liability	1,061,924	-
Accrued expenses	955,077	649,678
Allowance for doubtful accounts	471,424	369,402
	<u>23,272,393</u>	<u>14,458,325</u>
Gross deferred tax asset		
Deferred tax liabilities		
Intangibles	(43,609,682)	(42,497,725)
Goodwill	(10,113,571)	(3,511,197)
Property and equipment	(594,621)	(1,784,289)
Other	(19,075)	-
	<u>(54,336,949)</u>	<u>(47,793,211)</u>
Gross deferred tax liability		
Total deferred tax liability	<u>\$ (31,064,556)</u>	<u>\$ (33,334,886)</u>

As of December 31, 2020 and 2019, the Company has net operating loss ("NOL") carryforwards for U.S. federal tax purposes of \$58,822,000 and \$25,068,000, respectively. The federal NOL carryforwards have no expiration. As of December 31, 2020 and 2019, the Company has NOL carryforwards of approximately \$50,274,000 and \$23,567,000, respectively, for state income tax purposes. The state NOL carryforwards expire at various dates through 2040. As of December 31, 2020 and 2019, the Company has cumulative interest limitation carryforwards for U.S. federal tax purposes of \$8,826,000 and \$12,627,000, respectively.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The Company believes that it is more likely than not that the reversal of current deferred tax liabilities and the results of future operations will be sufficient to realize the deferred tax assets and has not recorded a valuation allowance as of December 31, 2020 and 2019.

Tax year 2018 and forward are open to examination by the Internal Revenue Service and various state tax authorities.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. The CARES Act is a stimulus bill that includes lending facilities to large and small business, expands unemployment benefits and implements individual and business tax changes. As a result of the CARES act, the Company has deferred the payment of \$2,532,744 million in employer payroll taxes, of which \$1,266,372 million is due to be remitted on December 31, 2021 and December 31, 2022. These balances are reflected in accrued compensation and other long-term liabilities in the consolidated balance sheet, respectively.

As of December 31, 2020 and 2019, the Company recognized a liability for an uncertain tax position related to Mosquito Squad and its S-Corp election of \$1,462,429 and \$2,203,825, respectively, which includes potential interest and penalties. As of December 31, 2020 and 2019, potential interest was \$142,000 and \$169,000, respectively, and penalties were \$220,000 and \$337,000, respectively. This liability has been reflected in other long-term liabilities. An offsetting indemnification asset for \$1,462,429 and \$2,203,825 as of December 31, 2020 and 2019, respectively, has been recognized in other assets as a result of indemnifications provided in the stock purchase agreement between the Company and the seller of Mosquito Squad.

11. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Deferred revenue	\$ 15,192,252	\$ 8,144,898
Capital lease obligation	2,969,323	2,759,081
Uncertain tax position liability	1,462,429	2,203,825
Other	293,353	292,871
	<u> </u>	<u> </u>
Total other long-term liabilities	<u>\$ 19,917,357</u>	<u>\$ 13,400,675</u>

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

12. Long-term Debt

Long-term debt consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Term loan	\$ 319,966,018	\$ 245,515,328
Revolving credit facility	4,000,000	-
Delayed draws	56,454,507	46,000,000
Total debt	<u>380,420,525</u>	<u>291,515,328</u>
Less: Current portion	4,130,030	2,601,230
Less: Unamortized deferred loan costs	9,715,592	6,996,467
Long-term debt	<u>\$ 366,574,903</u>	<u>\$ 281,917,631</u>

	2020 Original Principal	2019 Original Principal	Rate	Maturity
Terms loans				
Credit agreement	\$ 364,900,000	\$ 248,000,000	5.75% + LIBOR	March 20, 2025
Other				
Delayed draws	\$ 56,914,507	\$ 46,000,000	5.75% + LIBOR	March 20, 2025

In September 2018, the Company entered into a \$124,000,000 term loan and a \$15,000,000 revolving line of credit (2018 Credit Agreement) with a financial institution in order to fund the initial acquisitions completed in 2018.

In April 2019, the Company entered into an Amendment to the 2018 Credit Agreement. The Amendment added \$124,000,000 in incremental term loan commitments and another \$10,000,000 revolving line of credit (2019 Amended Credit Agreement) in order to fund the acquisition of Clockwork (Note 3). As part of the modification to the debt agreement, the Company incurred and deferred \$3,491,170 of related costs.

In March 2020, the Company entered into an Amendment to the 2019 Amended Credit Agreement and an Incremental Facilities Assumption Agreement (March 2020 Amended Credit Agreement) to amend certain terms of the Credit Agreement to fund a dividend to the Partnership. The primary modifications relate to the addition of new financing participants, changes to certain covenants, increase in the credit facility available and changes related to audited financial statement requirements. The modification included funding of an additional term loan of \$116,900,000 and a delayed draw of \$34,286,507. These drawn down funds were primarily used by the Company to fund the dividend of \$62,450,723, including transaction costs of \$446,112, to the Partnership and repay existing delayed draws of \$46,000,000 and terms loans of \$38,780,282, which were replaced with the new loans. The Amendment also increased the revolving line of credit available to the Company by \$5,000,000 to \$29,000,000. In March, the Company drew down \$8,000,000 from the revolving line of credit and as of December 31, 2020, a principal amount of \$4,000,000 was outstanding. As the amendment was treated as a debt modification for accounting purposes, the transaction costs incurred were capitalized.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

In September 2020, the Company entered into an Amendment to the March 2020 Amended Credit Agreement (September 2020 Amended Agreement) which provided for the funding of an additional draw down of \$22,628,000 from the Company's Delayed Draw Term Commitment of \$75,000,000, and was utilized for the Monster acquisition.

As part of the 2020 modifications to the debt agreement, the Company capitalized and deferred costs of \$5,289,855.

Substantially all of the assets of the Company collateralize the 2018 Credit Agreement, 2019 Amended Credit Agreement, March 2020 Amended Credit Agreement and September 2020 Amended Agreement, together the "Amended Credit Agreement."

Interest on all borrowings under the Amended Credit Agreement is at either the Eurocurrency Rate of 5.75% per annum or at the Base Rate of 4.75% per annum plus the Applicable Rate for each loan. As of December 31, 2020, the Company had entered into five Eurocurrency Rate Loans and one Base rate loan. As of December 31, 2019, the Company had entered into four Eurocurrency Rate Loans and no Base rate loans. Both the term loans and delayed draws are Eurocurrency Rate Loans and the revolving credit facility is a Base rate loan.

As of December 31, 2020 and 2019, interest rates were as follows:

	2020	2019
Term loan	6.75%	7.55%
Revolving credit facility	8.00%	-
Delayed draws:		
October 2018	-	7.55%
December 2018	-	7.49%
March 2020	6.75%	-
September 2020	6.75%	-

The Amended Credit Agreement provides for a Commitment Fee equal to 0.50% per annum on the actual daily amount by which the aggregate Revolving Credit Commitment exceeds the sum of (A) the Outstanding Amount of Revolving Credit Loans and (B) the Outstanding Amount of L/C Obligations. The Company also pays a quarterly Delayed Draw Commitment Fee in an amount equal to 1.00% per annum on the unfunded Delayed Draw Term Commitments. As of December 31, 2020 and 2019, the unfunded Delayed Draw Term Commitments were \$52,372,000 and \$4,000,000, respectively.

The Amended Credit Agreement requires, among other things, maintenance by the Company of minimum levels of cash flow coverage, leverage to EBITDA ratios, and also limits capital expenditures. As of December 31, 2020 and 2019, the Company was in compliance with these covenants. Coinciding with the original Credit Agreement, the Amended Credit Agreement expires in March 2025.

As of December 31, 2020 and 2019, \$728,800 and \$68,658 of interest was included in accrued liabilities in the consolidated balance sheets, respectively.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

All outstanding debt matures on March 20, 2025. Future maturities of long-term debt as of December 31, 2020 are as follows:

2021	\$ 4,130,030
2022	4,186,599
2023	4,356,309
2024	4,356,309
2025	<u>363,391,278</u>
	<u>\$ 380,420,525</u>

13. Stockholder's Equity

As of December 31, 2020 and 2019, the Company had 1,000 shares of common stock issued, authorized and outstanding, in both periods. The Company issued all 1,000 fully paid, nonassessable shares of the common stock at a par value of \$0.001 per share, in exchange for aggregate subscription consideration of \$1.00.

In accordance with the Certificate of Incorporation, the Company had a total of 1,000 shares of common stock to which it has the authority to issue with a par value of \$0.001 per share.

During 2020, the Company paid a dividend from incremental funding provided by the Company's Amended Credit Agreement (Note 12). The dividend was paid on March 13, 2020 in the amount of \$62,004,611.

14. Stock Based Compensation

Class B Profit Interest Units

The Plan provides participants with an opportunity to participate in the distribution of the future profits of the Company. The awards issued under the Plan are also referred to as Class B Profit Interest Units. One third of Class B Profit Interest Units vest over time and are conditioned upon the achievement of a set return on invested capital. Remaining awards vest as the Company achieves multiples of the invested capital and are conditioned upon occurrence of a change in control, Initial Public Offering ("IPO") or a qualified leverage recapitalization ("change in control events"). The Company had 60,277,036 Class B Profit Interest Units authorized to be issued under the Plan.

As of December 31, 2020 the Company determined that it is not probable that any of the change in control events will occur and, as such, compensation expenses related to the portion of the awards conditioned upon occurrence of these events was not recognized in the consolidated financial statements as of and for the years ended December 31, 2020 and 2019.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The awards that are not conditioned upon occurrence of the change in control events and have a time-vesting component are earned in equal tranches upon each of the anniversaries over the period of five years which was determined to be the requisite service period. These awards will not vest until the return on invested capital condition is met even as the time-vesting condition is met. As of December 31, 2020 and 2019, no units were vested. The fair value of these awards was estimated on the grant date using the Monte Carlo simulation valuation model utilizing a vesting period of 5 years, equity volatility of 37.5%, risk-free rate of 1.62% and dividend yield of 0% for both 2020 and 2019 grants.

	Weighted Average Fair Value	Class B Profit Interest Units	Weighted Average Remaining Contractual Term
Units outstanding as of December 31, 2018		29,047,420	4.72 years
Granted during 2019	\$ 0.35	27,539,227	
Forfeited during 2019	\$ 0.24	<u>(10,891,728)</u>	
Units outstanding as of December 31, 2019		45,694,919	3.97 years
Granted during 2020	\$ 0.36	9,077,879	
Forfeited during 2020	\$ 0.24	<u>(180,120)</u>	
Units outstanding as of December 31, 2020		<u>54,592,678</u>	3.19 years

Compensation expense related to Class B Profit Interest Units of \$1,930,992 and \$1,350,228 was recognized in general and administrative expenses on the consolidated statements of comprehensive loss during the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company had \$2,447,025 and \$3,300,729 of unrecognized stock-based compensation expense.

Class A-2 Units Issued to Certain Executives

The Partnership provided certain executives with ownership interests in the Partnership (known as Class A-2 Units) in exchange for promissory notes and rollover equity, in accordance with the Contribution, Rollover and Subscription agreement. Under the terms of this agreement, the Company's executives were provided ownership interests in the Partnership in exchange for promissory notes.

These agreements are in substance, compensation arrangements and are accounted for as instruments similar to a stock option. Compensation expense is recognized at each balance sheet date with the changes in value recorded in the consolidated statements of comprehensive loss with the corresponding recognition of the noncash contribution from the Partnership in additional paid-in-capital in the consolidated balance sheet.

The Company elected to account for these awards using the intrinsic valuation technique which represents excess value of the employees' Class A-2 units that were exchanged for promissory notes over the exercise price (which represents the face value of the promissory notes plus accrued interest). 15,600,000 of A-2 units were granted on September 21, 2018 and the intrinsic value of these awards on the grant date was equal to the value of the award. There were no additional grants of these awards during 2019 or 2020. There were no forfeitures or exercises of these award during the years ended December 31, 2020 and 2019.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

As part of the dividend to the Partnership, \$1,340,233 related to the partial repayment of the promissory notes held by employees of the Company was recognized as compensation expense during the year ended December 31, 2020.

As of December 31, 2020, these awards were fully vested and compensation expense of \$4,174,477 and \$4,139,240 was recognized in the consolidated statements of comprehensive loss during the years ended December 31, 2020 and 2019, respectively, which represents the change in the fair value of these awards as of December 31, 2020 and 2019, respectively.

15. Leases

The Company leases office and retail space for its corporate employees and retail operations. Rent expense is recognized on a straight-line basis over the terms of the leases. Future minimum rental payments under all operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 2020 are as follows:

	Capital Leases	Operating Leases
2021	\$ 1,910,936	\$ 2,406,181
2022	1,148,424	2,304,437
2023	1,012,353	2,082,160
2024	762,633	1,520,781
2025	271,595	1,290,752
Thereafter	-	4,848,182
Total minimum lease payments	<u>5,105,941</u>	<u>\$ 14,452,493</u>
Less: Amount representing interest	<u>326,391</u>	
Present value of net minimum lease payments	4,779,550	
Less: Current portion	<u>1,810,227</u>	
Capital lease obligations, less current portion	<u>\$ 2,969,323</u>	

Rent expense was \$2,790,942 and \$1,935,810, for the years ended December 31, 2020 and 2019, respectively.

Minimum capital lease payments are accounted for as principal and interest payments. Interest expense for all capital leases was \$147,243 and \$119,323 for the years ended December 31, 2020 and 2019, respectively.

16. Related Parties

The Company has several agreements in place with related parties through common ownership by the Partnership, in the ordinary course of business as follows:

- Paycor, a HR and payroll solutions company, provided payroll support services to the Company for the years ended December 31, 2020 and 2019.

Villa BidCo Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

- Assured Partners, a national partnership of financial services firms, provided insurance and employee benefits services to the Company for the years ended December 31, 2020 and 2019.
- Thoughtworks, a software development and digital transformation company, provided software solutions to the Company for the years ended December 31, 2020 and 2019.

Board fees were paid to shareholders who provided services through membership on the Company board.

ECCE Advisors Ltd, an advisory firm owned and operated by one of the Company's shareholders, provided mergers and acquisition support services to the Company for the year ended December 31, 2019. No such support services were provided during the year ended December 31, 2020.

The Company also employs eighteen individuals who own and operate franchises of wholly owned subsidiary businesses.

The Company recorded revenue and the corresponding accounts receivable related to these arrangements for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020, the Company paid rent expenses for a property owned by an employee and there were no corresponding accounts payable related to these arrangements. No related party expenses from transactions with employees were incurred during the year ended December 31, 2019.

Related party transactions consisted of the following:

		2020	2019
	Transaction		
Related parties through common ownership			
Paycor	Expenses paid	\$ 204,501	\$ 112,001
Assured partners	Expenses paid	239,170	1,311,847
Thoughtworks	Expenses paid	8,096,015	1,867,887
Thoughtworks	Accounts payable	-	644,791
Shareholders			
Board members	Board fees	\$ 190,440	\$ -
Ecce Advisors Ltd	Expenses paid	-	1,044,673
Transactions with employees			
Revenue		\$ 2,935,786	\$ 3,055,268
Accounts receivable		72,173	49,103
Expenses paid		53,946	-

17. Contingencies

The Company is engaged in various legal proceedings incidental to its normal business activities. Management has determined that it is not probable that the Company has incurred any loss contingencies as defined in FASB ASC Topic 450, Contingencies. Accordingly, no liabilities have been recorded for such matters as of December 31, 2020 and 2019. Management believes that

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

the outcome of such matters will not have a material effect on the Company's consolidated financial statements.

18. Employee Benefit Plans

The Company sponsors a 401 (k) plan covering the majority of its employees meeting certain eligibility requirements. The plan provides for matching contributions of 100% of employee contributions, up to 4% of the participating employee's contributions. The Company's contributions to the plan totaled \$1,080,090 and \$755,238 for the years ended December 31, 2020 and 2019, respectively.

19. Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition and disclosure in the consolidated financial statements through April 14, 2021, the date the consolidated financial statements were available to be issued. The Company did not identify any matters except for those below:

Doodycalls

On February 17, 2021, the Company entered into an agreement to acquire 100% of the issued and outstanding equity interests of DoodyCalls, Inc. and its affiliates DoodyCalls LLC, DoodyCalls Intellectual Property LLC. The agreed upon transaction consideration was in the amount of \$23,750,000 and was funded through a \$23,500,000 drawn from the Company's delayed draw facility and rollover of equity totaling \$1,600,000. These amounts were used as consideration to the seller and payment of associated transaction costs with excess funds retained by the Company.

Event Subsequent to Original Issuance of Consolidated Financial Statements (Unaudited)

In connection with the reissuance of the consolidated financial statements, the Company has evaluated subsequent events through May 15, 2021, the date the consolidated financial statements were available to be reissued.

Organization and Description of Business

On March 24, 2021 as part of the securitization transaction, as described below, fifteen wholly owned entities were established by the Company. The first three entities formed were AB SPE Guarantor LLC ("Guarantor") a direct, wholly-owned subsidiary of the Company which directly and wholly owns AB Issuer LLC ("Issuer"), a newly formed special purpose Delaware limited liability company which directly and wholly owns AB Assetco LLC ("AB Assetco"), a Delaware limited liability company.

AB Assetco wholly owns the remaining twelve Special Purpose Entity ("SPE") entities formed as follows: The Cleaning Authority Franchising SPE LLC ("The Cleaning Authority Franchisor"), Homewatch CareGivers Franchising SPE LLC ("Homewatch Franchisor"), Mosquito Squad Franchising SPE LLC ("Mosquito Squad Franchisor"), ASP Franchising SPE LLC ("ASP Franchisor"), Benjamin Franklin Franchising SPE LLC ("Benjamin Franklin Franchisor"), Mister Sparky Franchising SPE LLC ("Mister Sparky Franchisor"), One Hour Air Conditioning Franchising SPE LLC ("One Hour Air Conditioning Franchisor"), Monster Franchising SPE LLC ("Monster Franchisor"), STOP Franchising SPE LLC ("STOP Franchisor"), DoodyCalls Franchising SPE LLC ("DoodyCalls Franchisor"), BuyMax SPE LLC ("BuyMax SPE") and Successware SPE LLC ("SuccessWare SPE").

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Securitization

On May 14, 2021, the Issuer completed a financing transaction (the “Securitization Transaction”) resulting in the issuance of \$5,000,000 in maximum principal amount Advance Funding Facility (the “Advance Funding Facility” or “AFF”), \$50,000,000 in maximum principal amount of Series 2021-1 Variable Funding Senior Notes, Class A-1 (the “VFN” or the “Class A-1 Notes”) and \$425,000,000 of Series 2021-1 3.734% Fixed Rate Senior Secured Notes, Class A-2 (the “Term Notes” or “Class A-2 Notes”) and, together with the Advance Funding Facility and VFN, (the “Series 2021-1 Notes”).

Advance Funding Facility

The Advance Funding Facility, which was undrawn at closing, provides for a maximum outstanding principal amount of \$5,000,000. Under the provisions of the AFF, any outstanding advances under the AFF bear interest at a variable rate, Prime + 3%, and the Issuer is obligated to pay a commitment fee related to undrawn amounts. The AFF will terminate upon the earlier of the (i) the payment in full of all obligations relating to the Class A-2 Notes and (ii) payment in full of all interest on and principal of all AFF advances. The AFF is not a revolving facility and, accordingly, advances made and repaid are not permitted to be reborrowed.

Class A-1 Notes

The Class A-1 Notes provide for a maximum outstanding principal amount of \$50,000,000. On the closing date, \$10,400,000 was drawn in the form of advances and \$5,075,555 in the form of letters of credit. Under the provisions of the Class A-1 Notes, any outstanding LIBOR borrowings bear interest, payable quarterly, at a variable rate of 2.625% plus LIBOR. The Issuer is obligated to pay fees of 0.50% accrued daily and paid quarterly related to undrawn amounts and any outstanding letters of credit. The anticipated repayment date for the Class A-1 Notes is July 2026, subject to two one-year extensions upon the satisfaction of certain conditions. The final legal maturity date of the Class A-1 Notes is July 2051. There are no principal payments due on the Class A-1 Notes in the ordinary course, but the Class A-1 Notes will be subject to rapid amortization if not paid in full by the anticipated repayment date.

Class A-2 Notes

The Class A-2 Notes were issued in the amount of \$425,000,000, with \$25,000,000 of the proceeds of the Class A-2 Notes deposited into a pre-funding account for use in potential acquisitions (subject to the satisfaction of certain conditions). To the extent funds remain on deposit in the pre-funding account on May 14, 2022, one year after issuance, the remaining funds will be used to prepay principal of the Class A-2 Notes, and an additional 1% prepayment premium on such principal payment will be due. The Class A-2 Notes have an anticipated repayment date of July 2028 and a legal final maturity date of July 2051. Interest is due quarterly, with 3 months of interest and commitment fees on the Class A-2 Notes and Class A-1 Notes required to be on deposit at all times in an interest reserve account. The first interest payment on the Class A-2 notes is due November 1, 2021 and will represent approximately 5 and a half months of interest post-closing at a rate of 3.734%. After this date, interest accrues at 3.734% per annum and is due on a quarterly basis. Principal payments of 0.25% of the initial principal amount of the Class A-2 Notes is due and payable on a quarterly basis (unless a non-amortization test is satisfied, as defined in the agreement governing the Class A-2 Notes).

The Series 2021-1 Notes are collateralized by substantially all of the assets of Issuer and collateralized by substantially all of the assets of and guaranteed by the Guarantors. The Series 2021-1 Notes are not secured, collateralized or guaranteed by any entities other than the Securitization Entities. The net proceeds from the Securitization Transaction, after transaction expenses, were distributed to Villa Bidco Inc. to repay all of its previously outstanding term and revolving debt and to terminate all commitments thereunder.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Although the Company is not directly liable for the Series 2021-1 Notes, the Issuer is dependent on AB Assetco and its subsidiaries for sufficient cash flows from its operations to service the Series 2021-1 Notes, remit management fees, and pay certain ongoing costs related to the Securitization Transaction. Substantially all operating cash flows of AB Assetco and its subsidiaries will be distributed to the Issuer.

Letters of Credit

The Issuer has two letters of credit outstanding in an aggregate face amount of \$5,075,555 for interest reserve requirements required by the Securitization Transaction, which reflects 3 months of interest on the Class A-2 Note amount of \$425,000,000, 3 months of interest and commitment fees on the Class A-1 Notes assuming an estimated usage of \$25,000,000, and 12 months of interest on the pre-funding proceeds of \$25,000,000 at the Class A-2 Notes interest rate of 3.734%.

Management Agreement

On May 14, 2021, the Company along with the other Securitization Entities entered into a Management Agreement with the Parent, under which the Parent has agreed to perform certain services on behalf of the Securitization Entities, including, among other things, collecting franchisee payments, managing operations on behalf of the Securitization Entities and performing certain franchising, marketing, intellectual property and operational and reporting services on behalf of the Securitization Entities. In exchange for providing such services, the Parent will be entitled to receive certain management fees on a weekly basis equal to an annual base fee plus a percentage of cash collections.

Villa BidCo Inc. and Subsidiaries

Consolidated Financial Statements

**Year Ended December 31, 2019 Period From
September 21, 2018 Through December 31, 2018
(Successor) and Period From December 31, 2017
Through September 20, 2018 (Predecessor)**

Villa BidCo Inc. and Subsidiaries

Index

	Page(s)
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Balance Sheets	
December 31, 2019 and 2018.....	3
Statements of Comprehensive Loss	
Year ended December 31, 2019 period from September 21, 2018 through December 31, 2018 (Successor) and period from December 31, 2017 through September 20, 2018 (Predecessor).....	4
Statements of Changes in Stockholder’s Equity	
Year ended December 31, 2019 period from September 21, 2018 through December 31, 2018 (Successor) and period from December 31, 2017 through September 20, 2018 (Predecessor).....	5
Statements of Cash Flows	
Year ended December 31, 2019 period from September 21, 2018 through December 31, 2018 (Successor) and period from December 31, 2017 through September 20, 2018 (Predecessor).....	6-7
Notes to Financial Statements	8–31



Report of Independent Auditors

To the Board of Directors of Villa BidCo Inc.

We have audited the accompanying 2019 consolidated financial statements of Villa BidCo Inc. and its subsidiaries (Successor) (the "Company"), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of comprehensive loss, of changes in stockholder's equity and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Villa BidCo Inc. and its subsidiaries (Successor) as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for settlements of contingent consideration in 2019. Our opinion is not modified with respect to this matter.



Other Matter

The consolidated financial statements of Villa BidCo Inc. (Successor) as of December 31, 2018 and for the period from September 21, 2018 through December 31, 2018 and the consolidated financial statements of Villa BidCo Inc. (Predecessor) for the period from December 31, 2017 through September 20, 2018 were audited by other auditors whose report, dated July 15, 2019, except for a revision to the Successor financial statements discussed in Note 3 (not presented herein), as to which the date is May 21, 2020, expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

May 21, 2020

Villa BidCo Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 13,248,233	\$ 2,472,001
Restricted cash	771,009	-
Accounts receivable, net	13,606,358	3,160,948
Inventory	5,032,949	280,584
Prepaid expenses and other current assets	5,332,574	828,708
Total current assets	37,991,123	6,742,241
Property and equipment, net	13,651,877	4,887,707
Intangible assets, net	421,244,139	244,692,411
Goodwill	307,634,579	182,852,873
Other assets	4,872,569	2,611,286
Total assets	\$ 785,394,287	\$ 441,786,518
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	\$ 8,357,867	\$ 1,044,440
Accrued and other liabilities	12,548,467	4,572,114
Deferred revenue	9,132,259	789,817
Current maturities on long-term debt	2,601,230	1,240,000
Total current liabilities	32,639,823	7,646,371
Long-term debt, net	281,917,631	163,802,147
Deferred tax liability, net	33,334,886	106,762
Other long-term liabilities	13,400,675	2,567,029
Total liabilities	361,293,015	174,122,309
Stockholder's equity	424,101,272	267,664,209
Total liabilities and stockholder's equity	\$ 785,394,287	\$ 441,786,518

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss

	Successor		Predecessor
	Year ended December 31, 2019	September 21, 2018 Through December 31, 2018	December 31, 2017 Through September 20, 2018
Revenues			
Franchise service fees	\$ 94,299,622	\$ 13,659,008	\$ 36,899,540
Franchise sales fees	1,465,076	238,955	1,154,168
Residential services	73,214,177	1,748,747	4,534,918
Other revenues	13,642,201	587,391	1,331,339
Total revenues	<u>182,621,076</u>	<u>16,234,101</u>	<u>43,919,965</u>
Costs and expenses			
Franchise support expenses	53,233,160	7,629,763	20,429,433
Franchise sales expenses	256,518	-	952,751
Residential service expenses	66,155,837	1,132,125	3,020,983
General and administrative expenses	41,144,134	3,204,344	18,047,346
Management fees and expenses	-	-	870,515
Transaction costs	7,449,491	3,071,751	-
Sales tax	-	6,460	165,734
Foreign currency transaction gains and losses	-	(40,698)	4,019
Depreciation and amortization	26,044,722	3,981,437	4,665,854
Total costs and expenses	<u>194,283,862</u>	<u>18,985,182</u>	<u>48,156,635</u>
Operating loss	(11,662,786)	(2,751,081)	(4,236,670)
Gain on disposal of property and equipment	-	1,337	12,407
Interest expense, net	(22,076,062)	(3,545,225)	(5,699,686)
Loss, before taxes	(33,738,848)	(6,294,969)	(9,923,949)
Income tax benefit	7,054,465	1,278,251	-
Net loss	<u>(26,684,383)</u>	<u>(5,016,718)</u>	<u>(9,923,949)</u>
Other comprehensive income			
Change in foreign currency translation adjustment	3,784	-	-
Other comprehensive income	<u>3,784</u>	<u>-</u>	<u>-</u>
Comprehensive loss	<u>\$ (26,680,599)</u>	<u>\$ (5,016,718)</u>	<u>\$ (9,923,949)</u>

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
Year Ended December 31, 2019 and for the Period From September 21, 2018 Through
December 31, 2018 (Successor)

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
	Units	Amount				
Successor						
Balances at September 21, 2018	1,000	1	-	-	-	1
Capital contributions	-	-	272,680,926	-	-	272,680,926
Net loss	-	-	-	(5,016,718)	-	(5,016,718)
Balances at December 31, 2018	1,000	1	272,680,926	(5,016,718)	-	267,664,209
Impact of change in accounting policy (see Note 2)	-	-	-	(43,760)	-	(43,760)
Adjusted balance at January 1, 2019	1,000	1	272,680,926	(5,060,478)	-	267,620,449
Capital contributions	-	-	177,671,954	-	-	177,671,954
Stock based compensation	-	-	5,489,468	-	-	5,489,468
Other comprehensive income	-	-	-	-	3,784	3,784
Net loss	-	-	-	(26,684,383)	-	(26,684,383)
Balances at December 31, 2019	1,000	1	455,842,348	(31,744,861)	3,784	424,101,272

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

Villa BidCo Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Successor		Predecessor
	Year ended December 31, 2019	September 21, 2018 Through December 31, 2018	December 31, 2017 Through September 20, 2018
Operating activities			
Net loss	\$ (26,684,383)	\$ (5,016,718)	\$ (9,923,949)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	26,044,722	3,981,437	4,665,854
Allowance for doubtful accounts	1,142,194		
Non-cash stock compensation	5,489,468	-	-
(Gain) / loss on disposal of property and equipment	12,635	(1,337)	(12,407)
Amortization of deferred loan costs	1,142,557	179,840	377,450
Paid-in-kind interest expense	-	-	657,177
Cumulative translation	-	-	-
Deferred taxes	(7,104,465)	(1,278,251)	-
Earnout liability revaluation	2,660,000	990,000	-
Earnout liability payment	(3,650,000)	-	-
Changes in assets and liabilities			
Accounts receivable	(4,037,238)	516,013	(734,648)
Inventory	(538,324)	35,211	(33,704)
Prepaid expenses and other current assets	243,088	(216,725)	(57,684)
Other assets	(1,635,839)	(2,531,823)	-
Accounts payable	4,675,855	234,889	(57,518)
Accrued liabilities	(2,044,699)	(651,260)	13,535,807
Other liabilities	1,656,789	1,541,824	-
Deferred revenue	5,877,225	279,076	(27,553)
Net cash provided by (used in) operating activities	<u>3,249,585</u>	<u>(1,937,824)</u>	<u>8,388,825</u>
Investing activities			
Business acquisitions, net of cash acquired	(280,998,478)	(417,914,186)	(13,179)
Purchases of property and equipment	(4,296,206)	(685,283)	(1,392,995)
Proceeds on disposal of property and equipment	36,270	16,463	12,407
Net cash used in investing activities	<u>(285,258,414)</u>	<u>(418,583,006)</u>	<u>(1,393,767)</u>
Financing activities			
Capital contributions	177,671,954	258,130,927	-
Collections of subscription receivable	-	-	17,500
Earnout liability payment	(1,350,000)	-	-
Payments of capital leases	(1,100,043)	-	-
Proceeds from long-term debt, net	123,508,830	165,172,307	-
Repayments of long-term debt	(5,174,671)	(310,403)	(5,831,308)
Net cash provided by (used in) financing activities	<u>293,556,070</u>	<u>422,992,831</u>	<u>(5,813,808)</u>
Increase in cash and cash equivalents	11,547,241	2,472,001	1,181,250
Cash, restricted cash and cash equivalents			
Beginning of period	2,472,001	-	1,030,703
End of period	<u>\$ 14,019,242</u>	<u>\$ 2,472,001</u>	<u>\$ 2,211,953</u>
Supplemental disclosures of cash flow information			
Interest paid	20,870,058	2,921,957	4,684,476
Taxes paid	380,900	-	-
Supplemental disclosures of non-cash flow information			
Change in indemnification asset	327,998	-	-
Change in uncertain tax position	327,998	-	-
Capital lease acquisitions	1,794,139	-	-

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

Villa BidCo Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Successor		Predecessor
	Year ended December 31, 2019	September 21, 2018 Through December 31, 2018	December 31, 2017 Through September 20, 2018
Reconciliation of cash, restricted cash, and cash equivalents reported in the consolidated balance sheet			
Cash and cash equivalents	\$ 13,248,233	\$ 2,472,001	\$ 2,211,953
Restricted cash	771,009	-	-
Total cash, restricted cash, and cash equivalents shown in the statement of cash flows	\$ 14,019,242	\$ 2,472,001	\$ 2,211,953

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

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Organization and Description of Business

Villa BidCo Inc. (“the Company” or “Villa BidCo”) is the parent company of a number of franchisors and related businesses operating in the United States and internationally. The Company is wholly owned by Villa Aggregator LP (the “Partnership”) through various wholly owned entities. Upon its formation on September 21, 2018, Villa BidCo entered into a securities purchase agreement to acquire the outstanding shares of Authority Brands which include: The Cleaning Authority, LLC (“The Cleaning Authority”), The Cleaning Authority, Inc. (“The Cleaning Authority Canada”), Mighty Maids, LLC (“TCA of Columbia, MD”), Homewatch CareGivers, LLC (“Homewatch CareGivers”), Homewatch Canada, Inc. (“Homewatch Canada”), and Homewatch CareGivers International, Inc. (“Homewatch International”).

The Company acquired Authority Brands on September 21, 2018 for an aggregate purchase price of \$339,991,973. The transaction was funded with \$212,468,399 of cash from equity contributions, net of transaction expenses, from Villa Parent Inc. and by Villa BidCo entering into a credit agreement for a \$124,000,000 term loan with an additional \$15,000,000 available under a revolving credit facility (“Credit Agreement”). The transaction also included the rollover of equity totaling \$8,550,000 million. In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The purchase price was allocated and funded as follows:

Assets acquired	
Cash	\$ 2,211,953
Current assets	3,107,092
Property and equipment	2,463,547
Goodwill	154,146,208
Intangible assets and other assets	185,289,114
Assets acquired	347,217,914
Liabilities assumed	(7,225,941)
Purchase price	\$ 339,991,973

Subsequent to the acquisition of Authority Brands, during 2018 Villa BidCo acquired 100% of the interests in Mosquito Squad Franchising, LLC (“Mosquito Squad”) and Pool Water Holdings, LLC (“America’s Swimming Pool” or “ASP”) and its subsidiaries which included: ASP Franchising, LLC, ASP Aviation, LLC and Greenland, LLC.

During 2019, Villa BidCo acquired 100% of Clockwork, Inc. and Direct Energy US Home Services, Inc., together with their Subsidiaries (“Clockwork”) which include: Benjamin Franklin Franchising, LLC, Mister Sparky Franchising, LLC, One Hour Air Conditioning Franchising, LLC, BuyMax LLC, Successware, Inc., Direct Energy Services Retail Inc., Quality A/C Service, LLC, New Millenium Academy LLC, Clockwork IP LLC and UWIN LLC.

As of December 31 2019, the Company owned and operated 14 franchise locations. Expenses related to the management and operation of these owned businesses are included in the residential services expenses line in the consolidated statements of comprehensive loss for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Franchised outlets are summarized below as of December 31, 2018 and 2019.

	Ben Franklin	Mister Sparky	One Hour	Homewatch	Mosquito Squad	The Cleaning Authority	America's Swimming Pool
Franchises as of December 31, 2018	-	-	-	174	229	211	271
Acquired during the period	239	100	338	-	-	-	-
Opened during the period	15	9	9	21	15	8	53
Closed during the period	(11)	(4)	(6)	(10)	(17)	(4)	(6)
Refranchised during the period	-	-	-	-	-	-	-
Franchises as of December 31, 2019	243	105	341	185	227	215	318

2. Summary of Significant Accounting Policies

Financial Statement Preparation and Principles of Consolidation

Historically, the Company and its wholly owned subsidiaries operated on a 52/53-week fiscal year ending on the last Saturday in December. During 2018, the Company changed its fiscal year end to December 31. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally acceptable 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The areas that require the use of significant management estimates include purchase price allocation, deferred income taxes and stock-based compensation. Actual results could differ from those estimates.

Revenue Recognition

On January 1, 2019, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) "ASC 606," and several related amendments, issued by the Financial Accounting Standards Board ("FASB"). Upon adoption, revenue is recognized in accordance with a five-step revenue model, as follows: identifying the contract with the customer; identifying the performance obligations in the contract; determining the transaction price; allocating the transaction price to the performance obligations; and recognizing revenue when (or as) the entity satisfies a performance obligation.

The following describes principal activities from which the Company generates its revenues and the associated revenue recognition policies in 2019:

Franchise revenue

Franchise revenue consists of royalty, national advertising, local advertising, software fees, call center and initial franchise fees charged to franchisees. The Company administers the national advertising fund ("NAF") which is funded by the franchises and is used to pay for the costs of preparing and producing various advertising and marketing materials for the franchisees.

The Company's primary performance obligation under franchise agreements is granting rights to use the Company's intellectual property over the term of the franchise agreement. Brand royalty and NAF

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

fees are primarily based on a percentage of franchisee sales and the Company recognizes revenue for these fees as they become billable when the underlying franchisee sales occur. These fees are generally billed on a monthly basis. Fixed franchise and NAF fees, which are included in certain brand franchise agreements, are recognized on a straight-line basis over the franchise agreement term. Initial franchise fees are not associated with a service distinct from the overall initial franchise right performance obligation and are therefore recognized on a straight-line basis over the franchise agreement term. The advertising funded through the NAF benefits the franchise brands overall, rather than the individual franchise owners, and therefore is not a performance obligation separate from the overall franchise right. Any underspending of NAF contributions is recorded as deferred revenue.

Local advertising, software and call center services provide a distinct benefit from the franchise right and are therefore separate performance obligations. Fees associated with these services are generally billed as a monthly fixed or usage-based amount and are recognized as revenue as the services are performed either on a straight-line basis over the contract term if the fee is fixed or as invoiced if the fee is based on usage.

Franchise revenue, except for initial franchise fees, are included within the franchise services fees line item on the consolidated statements of comprehensive loss. Initial franchise fees are included in franchise sales fees on the consolidated statements of comprehensive loss.

Company-owned store revenue

Revenue from company-owned stores is generally recognized when the services are performed, which typically occurs on a single day. Payment is due within a short period of time after the service has been performed. The Company also offers extended warranties and annual service plans. Revenue associated with these services is recognized on a straight-line basis over the contract term. Fees are generally billed annually in advance and are included in deferred revenue and other long-term liabilities on the consolidated balance sheets until revenue recognition occurs.

Company-owned store revenue is included within the residential services financial statement line item on the consolidated statements of comprehensive loss.

Product sales revenue

The Company sells products to franchisee and non-franchisee customers. Revenue for product sales in which the Company has inventory risk is recognized at a point in time when control transfers to the buyer, which is generally when the product is shipped to the customer. Payment is due within a short period of time after the shipment.

The Company acts as an agent in respect of certain third-party products that are sold through the Company's online platform. The Company has no inventory risk as the products are drop shipped to the end customer and the third-party vendor is primarily responsible for fulfilling the order. The Company therefore recognizes revenue at an amount equal to the net fees received after payment to the third-party vendor.

Product sales revenue is included within other revenues on the consolidated statements of comprehensive loss for the year ended December 31, 2019, and the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Rebates

Rebates received from third-party vendors in return for the Company maintaining a buying program that connects the vendors with the Company's franchisee customers are recognized as revenue as they become due, which is generally on a quarterly basis. Rebates are calculated as a percentage of third-party sales and are included within the other revenue line on the consolidated statements of comprehensive loss.

Obligations arising for returns, refunds, and other assurance warranties are infrequent and not material to the financial statements for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018.

Revenue is recognized net of any taxes collected from customers which are subsequently remitted to taxing authorities. These taxes are recorded as a liability when the amounts are billed to franchisees and the liability is relieved when payments are made to the respective taxing authority.

Contract balances

Contract assets are amounts for which revenue has been recognized but the Company's right to consideration is conditional upon performing further service. Current contract assets as of December 31, 2019 and January 1, 2019 were not significant. The contract asset balance is included in other assets on the consolidated balance sheets.

Contract liabilities, in accordance with ASC 606, are amounts collected, or an unconditional right to consideration (receivable) in advance of delivery of goods or services. The current portion of contract liabilities is included in deferred revenue on the consolidated balance sheets. Long-term contract liabilities are included in other long-term liabilities on the consolidated balance sheets.

The following table presents opening and closing balances of contract assets and liabilities resulting from the adoption of ASC 606 as of December 31, 2019 and January 1, 2019:

	Balance at December 31, 2019	Balance at January 1, 2019	Location on the consolidated balance sheets
Contract assets - short-term	\$ 264,209	\$ 31,189	Prepaid expenses and
Contract assets - long-term	732,560	244,686	Other assets
Contract liabilities - short-term	1,209,721	28,634	Deferred revenue
Contract liabilities - long-term	7,004,485	105,351	Other long-term liabilities

Costs incurred to obtain a contract with customers

The Company capitalizes commissions paid to brokers that are a direct result of obtaining a new franchise agreement and amortizes these costs over the franchise agreement period. The short-term and long-term portion of the deferred costs related to these arrangements are included in prepaid expenses and other current assets and in other assets, respectively, on the consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management determines the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Uncollectible accounts are written off against the allowance when collection of the amounts appears doubtful. As of December 31, 2019 and December 31, 2018,

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

the allowance for doubtful accounts was \$1,480,567 and \$109,945, respectively. Historically, and during the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, there have been no write-offs of uncollectible accounts.

Cash and Cash Equivalents

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents. Cash consists primarily of cash on hand and cash on deposit. The Company maintains its cash in banks in which deposits may, from time to time, exceed federally insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks related to cash.

On January 1, 2019, the Company adopted the provisions of Accounting Standards Update (“ASU”) 2016-15 Statement of Cash Flows (Topic 230). The amendments in this ASU required that cash payments made not soon after (defined as more than three months) the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows from financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. During 2019 the Company settled and paid contingent consideration in the amount of \$5,000,000 associated with its America’s Swimming Pool acquisition. The payment of the contingent consideration was reflected in the 2019 consolidated cash flows as follows: the amount of the initial fair value of the liability recognized at the acquisition date of \$1,350,000 is included as a financing activity and the remaining payment of \$3,650,000 represents the increase in fair value of the contingent consideration since the acquisition date and is included in operating activities. The Company did not settle and pay any contingent consideration during 2018, therefore, there was no impact of adoption on the previously reported amounts.

Restricted Cash and Cash Equivalents

As of December 31, 2019 and 2018, the Company held \$771,009 and \$0 in restricted cash and cash equivalents as collateral in connection with the borrowing facilities.

On January 1, 2019, the Company adopted the provisions of Accounting Standards Update (“ASU”) 2016-18 Statement of Cash Flows (Topic 230). The amendments in this ASU required that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. The Company did not have any restricted cash balances as of December 31, 2018, therefore, there was no impact of the adoption on the previously reported amounts.

Inventory

Inventory consists of products, materials and equipment to be sold and is stated at the lower of cost or net realizable value, with cost determined using weighted-average, on a first-in, first-out method. As of December 31, 2019 and 2018, inventory was assessed for slow moving and obsolete items with no reserve being deemed required.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Property and Equipment

Property, and equipment is stated at historical cost and depreciated using the straight-line method over the estimated useful life of the assets. Additions and betterments are capitalized, maintenance and repairs which do not extend the useful life of the assets are expensed as incurred in general and administrative expenses on the consolidated statements of comprehensive loss.

Leases

The Company leases retail locations, office space and equipment. Under ASC 840 "Leases" leases are classified as either operating or capital.

For leases classified as operating, the minimum rentals payments over the lease term (including reasonably assured renewal periods) are recognized on a straight-line basis over the lease term. The excess of straight-line rent expense over scheduled payments is recorded as a deferred rent. Deferred rent as of December 31, 2019 and 2018 was \$305,084 and \$40,239, respectively. Executory costs such as real estate taxes and maintenance, and contingent rentals such as those based on a percentage of sales are recognized as incurred. The lease term, which includes all renewal periods that are reasonably assured, begins on the date the Company has access to the leased property. The Company receives contributions from landlords for leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term.

Assets held under capital leases are included in property and equipment on the consolidated balance sheet and are amortized over the lesser of the term of the related lease or the estimated useful life of the asset.

Intangible Assets

Intangible assets consist of trademarks, franchise relationships, customer relationships, proprietary processes, and noncompetition agreements. Intangible assets are stated at their estimated fair value at the date of acquisition. Amortization is computed over the estimated useful lives of the related intangible assets using the straight-line method.

Long-lived Assets

In accordance with FASB ASC 360, Accounting for Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment, at least annually, or 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 at the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not recognize any impairment charges for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of assets and liabilities acquired, including specifically identified intangible assets. Goodwill is not amortized but is tested for

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

impairment at least annually as of the last day of each fiscal year, unless a triggering event occurs that would require an interim impairment assessment.

In conducting impairment testing, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If the Company performs a qualitative assessment and determines that the carrying value more likely than not exceeds the fair value, then the quantitative impairment test is performed, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test. The ultimate outcome of the goodwill impairment assessment will be the same whether the Company chooses to perform the qualitative assessment or proceed directly to the quantitative impairment test.

The Company chose to perform a qualitative impairment test for goodwill at December 31, 2019 and 2018. The Company determined that the recorded value for goodwill was not impaired.

Deferred Loan Costs

In accordance with ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), the Company records and presents certain deferred loan costs, which amounts are presented as a reduction of long-term debt on the consolidated balance sheets. These costs are amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Amortization of \$1,142,557, \$179,840 and \$377,450 is included in interest expense on the consolidated statements of comprehensive loss for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Stock Based Compensation

Upon the formation of the Company in 2018, the Partnership established the Villa Aggregator LP Amended and Restated Executive Equity Incentive Plan (the "Plan"), which governs certain stock-based and other incentive compensation with the employees. The Plan provides employees an opportunity to indirectly participate in the distribution of the future profits of the Company.

The awards issued under the Plan (known as Class B Profit Interest Units) are classified as equity awards. Compensation expense is estimated at the grant date based on an award's fair value as calculated by the Monte-Carlo simulation valuation model. Compensation expense is recognized using the graded vesting attribution method over the requisite service period of five years and is included in general and administrative expenses on the consolidated statements of comprehensive loss. The Company made a policy election of recognize forfeitures as they occur.

The Company also provided certain executives with ownership interests in the Partnership (known as Class A-2 Units) in exchange for promissory notes and rollover equity. The promissory notes only have recourse against the employee's Class A-2 units, as such they are considered to be a stock option in accordance with GAAP. In addition, the notes have an interest rate that is based on a third party indexed rate, and therefore the stock option is classified as a liability award by the Partnership. Liability classified awards are measured at each reporting date using the intrinsic value model with the related compensation expense recognized over the initial requisite service period of one year and are recorded in general and administrative expenses in the consolidated statements of comprehensive loss. Until the stock option is deemed to have been exercised through the repayment of the notes, any distributions on these shares will be deemed compensation expense.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company is not the legal obligor of these stock awards. Therefore, the obligation (liability classified award) remains with the Partnership and any stock compensation charges incurred are recognized as additional paid-in capital through a non-cash contribution with an offsetting charge to compensation expense.

Taxes

The Company, Authority Brands, The Cleaning Authority, TCA of Columbia, MD, Homewatch CareGivers, ASP, Mosquito Squad and Clockwork are subsidiaries of Villa TopCo, Inc., a C corporation. The consolidated group of entities is subject to federal and state income taxes. Accordingly, an income tax provision has been recognized for federal and state income taxes. The Cleaning Authority Canada and Homewatch Canada are Canadian corporations that are subject to Canadian income taxes. Homewatch International is a U.S. corporation that is subject to U.S. income taxes. For 2019, income taxes for The Cleaning Authority Canada, Homewatch Canada and Homewatch International were insignificant.

The Company provides for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for financial reporting and for income tax reporting. The deferred tax assets or liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

For balance sheet presentation purposes, the Company nets its deferred tax asset and deferred tax liability positions by tax jurisdiction and classifies the resulting net deferred tax asset and/or net deferred tax liability as noncurrent in accordance with FASB Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes ("ASU 2015-17") on the consolidated balance sheets.

The Company utilizes a two-step approach for recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position will be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. Income taxes are accounted for an accrual basis.

Advertising Costs

The Company administers the NAF funded by the franchisees. The NAF pays for costs of preparing and producing various advertising and marketing materials for the franchises. These expenses are recognized as incurred.

The NAF advertising expenses are recognized as incurred and are included in franchise support expenses on the consolidated statements of comprehensive loss. NAF expenses for the year ended December 31, 2019 and the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018 were \$13,158,333, \$885,241 and \$2,420,469, respectively.

Non-NAF advertising expenses are recognized as incurred. For the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31,

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

2017 through September 20, 2018 \$25,120,502, \$91,000 and \$278,000, respectively, was expensed in the consolidated statements of comprehensive loss.

Foreign Currency Translation

The assets and liabilities of foreign operations in Canada, whose functional currency is other than the U.S. dollar, are translated to U.S. dollars at the period end exchange rates and revenues and expenses are translated at average exchange rates for the period. Differences arising from this translation are included in the foreign currency translation adjustment component of accumulated other comprehensive income on the consolidated balance sheets.

For all operations, the monetary items denominated in currencies other than the functional currency are remeasured at period-end exchange rates and transaction gains and losses are included in general and administrative expense in the consolidated statements of comprehensive loss. Non-monetary items are remeasured at historical rates. Impacts resulting from the foreign currency fluctuations were not material to the consolidated financial statements as of and during the periods presented.

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, accounts receivable, inventory, prepaid expenses, accounts payable, accrued liabilities and deferred franchise fees approximate fair value because of the short maturity of the instruments. The carrying value of long-term debt approximates fair value as the stated interest rates are at market rates.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Recent Accounting Pronouncements

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) and has since issued various amendments which provide additional clarification and implementation guidance. This standard has been codified as ASC 606. This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most revenue recognition guidance issued by the FASB, including industry specific guidance. On January 1, 2019, the Company adopted ASC 606 using the modified retrospective method to all contracts not completed as of January 1, 2019.

The Company has determined that initial franchise fees do not relate to separate and distinct performance obligations from the franchise right and those upfront fees will therefore be recognized as revenue over the term of each respective franchise agreement. In the past, the Company recognized such fees when the franchise business opened.

Escalating fixed franchise fees and national advertising fund fees are recognized on a straight-line basis over the life of the franchise agreement under ASC 606. In the past the Company recognized revenue based on the annual amount billed to the franchisee.

Under ASC 606, the Company capitalizes commissions paid to brokers that are a direct result of obtaining a new franchise agreement. Previously the Company expensed these commissions as incurred for certain brands.

The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effects of the changes made to the Company’s consolidated balance sheet as of January 1, 2019 for the adoption are detailed in the consolidated statements of changes in stockholders’ equity.

In accordance with ASC 606, the impacts of adoption on the Company’s consolidated statement of comprehensive loss for the year ended December 31, 2019 and the consolidated balance sheet as of December 31, 2019 was as follows:

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Year ended December 31, 2019	Adjustments due to ASC 606 adoption	December 31, 2019 without ASC 606 adoption
Revenues			
Franchise service fees	\$ 94,299,622	\$ (690,769)	\$ 93,608,853
Franchise sales fees	1,465,076	2,311,463	3,776,539
Costs and Expenses			
Franchise sales expenses	256,518	1,097,174	1,353,692
Operating Loss	(11,662,786)	523,520	(11,139,266)
Loss, Before Taxes	(33,738,848)	523,520	(33,215,328)
Income Tax Benefit	7,054,465	(130,618)	6,923,847
Net Loss	\$ (26,684,383)	\$ 392,902	\$ (26,291,481)

	December 31, 2019	Adjustments due to ASC 606 adoption	December 31, 2019 without ASC 606 adoption
Assets			
Current assets:			
Prepaid expenses and other current assets	\$ 5,332,574	\$ (235,788)	\$ 5,096,786
Other assets	4,872,569	(1,727,932)	3,144,637
Liabilities and Stockholder's Equity			
Current liabilities:			
Deferred revenue	9,132,259	(264,209)	8,868,050
Deferred tax liability	33,334,886	(130,618)	33,204,268
Other long-term liabilities	13,400,675	(2,288,136)	11,112,539
Stockholder's equity	\$ 424,101,273	\$ 458,007	\$ 424,559,280

Leases

In February 2016, the FASB issued ASU 2016-02, as subsequently updated (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. The new standard applies a right-of-use model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Currently these amendments will become effective for the Company beginning January 1, 2021. On April 8, 2020, the FASB voted to propose a deferral of the effective date for Topic 842 which will require the Company to adopt the standard beginning January 1, 2022. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently estimating the impact of the adoption of the standard on the consolidated financial statements.

Business Combinations

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are effective for fiscal years beginning after December 15, 2018. The Company adopted the standard as of January 1, 2019. The adoption of this standard did not have a significant impact on the consolidated financial statements.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for fiscal years beginning after December 15, 2021. The Company early adopted the standard as of January 1, 2019. The adoption of this standard did not have a significant impact on the consolidated financial statements.

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments, which requires the application of a current expected credit loss ("CECL") impairment model to financial assets measured at amortized cost (including trade accounts receivable), net investments in leases, and certain off-balance-sheet credit exposures. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, the CECL model requires financial assets with similar risk characteristics to be analyzed on a collective basis. ASC 326 is effective the Company on January 1, 2023. The Company is in the process of assessing the impact that ASU No. 2016-13 will have on the Company's consolidated financial position, results of operations, cash flows, and disclosures.

Cloud Computing

In August 2018, the FASB issued additional guidance on the accounting for customer's implementation costs incurred in cloud computing arrangements that are service contracts, ASU 2018-15 – Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40). The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The guidance is effective for the Company January 1, 2021 and can be applied retrospectively or prospectively. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12 introduced a number of simplification initiatives by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 is effective for the Company on January 1, 2022, with early adoption permitted. The amendments in the standard would need to be applied on a retrospective basis. The Company is currently reviewing the requirements of the standard and evaluating the impact on its consolidated financial statements.

3. Acquisitions

Clockwork

On May 1, 2019, the Company acquired the equity interests of Clockwork, Inc. and Direct Energy US Home Services, Inc., together with their Subsidiaries ("Clockwork"). Substantially all tangible and intangible assets of Clockwork were acquired for an aggregate purchase price of \$286,098,833. The transaction was funded with \$177,621,954 of cash from equity contributions from the Partnership and an incremental \$124,000,000 term loan under its existing credit agreement.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As a result of the transaction, the Company incurred and expensed transaction costs of \$7,449,491, which are included in transaction costs line on the consolidated statements of comprehensive loss.

In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

The purchase price was allocated and funded as follows:

Assets acquired	
Cash	\$ 5,100,356
Current assets	16,377,378
Property and equipment	5,013,181
Goodwill	124,781,706
Intangible assets and other assets	200,306,000
Other long term assets	911,651
	<hr/>
Assets acquired	352,490,272
Deferred Tax Liability	(40,347,137)
Liabilities assumed	(26,044,302)
	<hr/>
Purchase price	\$ 286,098,833
	<hr/>

America's Swimming Pool

On October 19, 2018, Villa BidCo entered into a membership interest purchase agreement to acquire 100% of the outstanding equity interests of America's Swimming Pool, a pool servicing franchise company, for an aggregate purchase price of \$51,796,192. The transaction was funded with \$22,917,904 million of cash from equity contributions from the Partnership and \$24,000,000 through draws on the existing revolving credit facility. The transaction also included the rollover of equity totaling \$6,000,000 and contingent consideration initially valued at \$1,350,000 which has been reflected on the opening balance sheet. The earnout is recorded at fair value on the consolidated balance sheet and subsequent changes in the estimated value of the earnout obligation is recognized in the consolidated statements of comprehensive loss. The Company re-measured the contingent consideration as of December 31, 2018 and recorded a fair value adjustment of \$990,000 that was reflected in general and administrative expenses in the consolidated statements of comprehensive loss. During 2019 the contingent consideration was settled and paid to the sellers in the amount of \$5,000,000. The additional increase in the contingent consideration at the time of the settlement of \$2,660,000 was recorded in the general and administrative expenses in the consolidated statement of comprehensive loss.

As a result of the transaction, the Company incurred and expensed transaction costs of \$1,921,151, which are included in transaction costs on the consolidated statements of comprehensive loss.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

Assets acquired

Cash	\$ 188,188
Current assets	1,213,773
Property and equipment	1,902,100
Goodwill	16,285,128
Intangible assets and other assets	32,847,566
Assets acquired	52,436,755
Liabilities assumed	(640,563)
Purchase price	\$ 51,796,192

Mosquito Squad

On November 13, 2018, Villa BidCo entered into a stock purchase agreement to acquire all of the outstanding stock of Mosquito Squad, a mosquito protection franchise company, for an aggregate purchase price of \$43,076,159. The transaction was funded with \$22,744,623 of cash from equity contributions from the Partnership and \$22,000,000 through the Company's existing revolving credit facility. As a result of the transaction, the Company incurred and expensed transaction costs of \$1,150,601 which are included in transaction costs on the consolidated statements of comprehensive loss. In accordance with guidance issued by the FASB for business combinations, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

Assets acquired

Current assets	\$ 258,979
Property and equipment	25,100
Other assets	2,699,711
Goodwill	12,421,536
Intangible assets and other assets	30,468,332
Assets acquired	45,873,658
Liabilities assumed	(2,797,499)
Purchase price	\$ 43,076,159

4. Inventory

Inventory consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Products for sale	\$ 3,255,790	\$ 280,584
Materials	1,654,148	-
Equipment	123,011	-
Total inventory	\$ 5,032,949	\$ 280,584

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Notes receivable	\$ 669,983	\$ -
Prepaid expenses	2,669,870	446,767
Other	1,992,721	381,941
Total prepaid expenses and other current assets	<u>\$ 5,332,574</u>	<u>\$ 828,708</u>

6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	Estimated Useful Life	2019	2018
Buildings and leasehold improvements	5 - 30 years	\$ 3,793,684	\$ 1,234,107
Software systems	1 - 3 years	2,000,519	166,833
Vehicles	2 - 5 years	6,853,254	1,261,238
Office equipment and furniture	2 - 5 years	1,545,933	726,811
Machinery, Equipment and tools	2 - 5 years	142,026	-
Land		143,300	143,300
Software in development		1,636,674	1,528,073
Total property and equipment		<u>16,115,390</u>	<u>5,060,362</u>
Less: Accumulated depreciation		<u>(2,463,513)</u>	<u>(172,655)</u>
Property and equipment - net		<u>\$ 13,651,877</u>	<u>\$ 4,887,707</u>

Depreciation expense recognized in the consolidated statements of comprehensive loss was \$2,290,449, \$173,195 and \$334,876 for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

7. Other Long-term Assets

Other long-term assets consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Indemnification asset	\$ 2,203,825	\$ 2,531,823
Long-term prepaid commission	995,372	-
Long-term contract asset	732,560	-
Other long-term assets	940,812	79,463
Total other long-term assets	\$ 4,872,569	\$ 2,611,286

8. Intangible Assets and Goodwill

Intangible Assets

Intangible assets consisted of the following as of December 31, 2019 and 2018:

	Estimated Useful Life	2019		
		Gross Amount	Accumulated Amortization	Net Amount
Trademarks	15-25 years	\$ 124,610,979	\$ 4,463,188	\$ 120,147,791
Franchise relationships	15 years	311,094,399	21,158,650	289,935,749
Software	10 years	7,500,000	500,000	7,000,000
Customer relationships	4 years	3,758,712	1,194,198	2,564,514
Proprietary processes	10 years	1,698,561	215,879	1,482,682
Noncompetition agreements	5 years	144,003	30,600	113,403
Intangible assets		\$ 448,806,654	\$ 27,562,515	\$ 421,244,139

	Estimated Useful Life	2018		
		Gross Amount	Accumulated Amortization	Net Amount
Trademarks	25 years	\$ 50,510,979	\$ 448,994	\$ 50,061,985
Franchise relationships	15 years	192,388,399	3,056,940	189,331,459
Customer relationships	4 years	3,758,712	254,501	3,504,211
Proprietary processes	10 years	1,698,561	46,007	1,652,554
Noncompetition agreements	5 years	144,002	1,800	142,202
Intangible assets		\$ 248,500,653	\$ 3,808,242	\$ 244,692,411

Amortization expense was \$23,754,273, \$3,808,242 and \$4,330,978 for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Estimated amortization expense for the subsequent five years and thereafter is as follows:

2020	\$ 27,639,072
2021	27,639,072
2022	27,384,499
2023	26,697,579
2024	26,670,576
Thereafter	285,213,341
	<u>\$ 421,244,139</u>

Goodwill

Changes in the net carrying amount of goodwill for the periods December 31, 2019 and September 21, 2018 through December 31, 2018 are as follows:

Balance at September 21, 2018	\$ 154,146,209
Acquisition of America's Swimming Pool	16,285,128
Acquisition of Mosquito Squad	12,421,536
Balance at December 31, 2018	<u>\$ 182,852,873</u>
Acquisition of Clockwork	124,781,706
Balance at December 31, 2019	<u>\$ 307,634,579</u>

During the periods presented, the Company did not record goodwill impairment charges.

9. Taxes

Income tax benefit consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Current		
State	50,000	-
	<u>\$ 50,000</u>	
Deferred		
Federal	\$ (5,777,898)	\$ (982,357)
State	(1,326,567)	(295,894)
	<u>(7,104,465)</u>	<u>(1,278,251)</u>
Income tax benefit	<u>\$ (7,054,465)</u>	<u>\$ (1,278,251)</u>

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Deferred income taxes consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Property and equipment	\$ (1,784,289)	\$ (954,668)
Net operating losses and credits	6,198,293	1,314,253
Inventory reserve	-	20,698
Accrued expenses	649,678	13,333
Interest limitation	3,150,430	484,418
Deferred revenue	4,090,522	-
Intangibles	(42,497,725)	(991,419)
Goodwill	(3,511,197)	230,314
Allowance for doubtful accounts	369,402	53,757
Valuation allowance	-	(277,448)
Total deferred tax liability	<u>\$ (33,334,886)</u>	<u>\$ (106,762)</u>

As of December 31, 2019 and 2018, the Company has net operating loss (“NOL”) carryforwards for U.S. federal tax purposes of \$25,068,000 and \$5,545,000, respectively. The federal NOL carryforwards have no expiration. At December 31, 2019 and 2018, the Company has NOL carryforwards of approximately \$23,567,000 and \$2,545,000, respectively, for state income tax purposes. The state NOL carryforwards expire at various dates through 2039.

Tax year 2018 and forward are open to examination by the Internal Revenue Service and various state tax authorities.

As of December 31, 2019 and 2018, the Company recognized a liability for an uncertain tax position related to Mosquito Squad and its S-Corp election of \$2,203,825 and \$2,531,823, respectively, which includes potential interest and penalties of \$169,000 and \$337,000 and \$117,000 and \$402,000, respectively. This liability has been reflected in other long-term liabilities. An offsetting indemnification asset for \$2,203,825 has been recorded in other assets as a result of indemnifications provided in the stock purchase agreement.

10. Other Long-term Liabilities

Other long-term liabilities consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Deferred revenue	\$ 8,144,898	\$ -
Capital lease obligation	2,759,081	35,206
Uncertain tax position liability	2,203,825	2,531,823
Other	292,871	-
Total other long-term liabilities	<u>\$ 13,400,675</u>	<u>\$ 2,567,029</u>

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

11. Long-term Debt

Long-term debt consisted of the following as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Term loan	245,515,328	\$ 123,690,000
Delayed draws	46,000,000	46,000,000
Total debt	291,515,328	169,690,000
Less: Current portion	2,601,230	1,240,000
Less: Unamortized deferred loan costs	6,996,467	4,647,853
Long-term debt	\$ 281,917,631	\$ 163,802,147

	2019	2018		
<u>Terms Loans</u>	Original	Original	Rate	Maturity
	Principal	Principal		
Credit Agreement	\$ 248,000,000	\$ 124,000,000	5.75% + LIBOR	3/20/2025
 <u>Delayed Draws</u>				
Revolving Credit Facility	\$ 46,000,000	\$ 46,000,000	5.75% + LIBOR	3/20/2025

In September 2018, the Company entered into a \$124,000,000 term loan and a \$15,000,000 revolving line of credit (2018 Credit Agreement) with a financial institution in order to fund the initial acquisitions completed in 2018 (Notes 1 and 3).

In April 2019, the Company entered into an Amendment to the 2018 Credit Agreement. The Amendment added \$124,000,000 in incremental term loan commitments and another \$10,000,000 revolving line of credit (Amended Credit Agreement) with a financial institution in order to fund the acquisition of Clockwork (Note 3). As part of the modification to the debt agreement, the Company incurred and deferred \$3,491,170 of related costs. Substantially all of the assets of the Company collateralize the Amended Credit Agreement.

Interest on all borrowings under the Amended Credit Agreement is at either the Eurocurrency Rate of 5.75% per annum or at the Base Rate of 4.75% per annum plus the Applicable Rate for each loan. As of December 31, 2019, the Company had entered into four Eurocurrency Rate Loans and as of December 31, 2018, the Company entered into three Eurocurrency Rate Loans. There were no Base Rate loans outstanding at any point during the periods ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the interest rate for the term loans was 7.55% and 8.26% and the interest rates for the two delayed draw loans were 7.55% and 7.49% and 8.14% and 8.22%, respectively.

The Credit Agreement provides for a Commitment Fee equal to 0.50% per annum on the actual daily amount by which the aggregate Revolving Credit Commitment exceeds the sum of (A) the Outstanding Amount of Revolving Credit Loans and (B) the Outstanding Amount of L/C Obligations. The Company also pays a quarterly Delayed Draw Commitment Fee in an amount equal to 1.00% per annum on the unfunded Delayed Draw Term Commitments.

The Credit Agreement and Amended Credit Agreement requires, among other things, maintenance by the Company of minimum levels of cash flow coverage, leverage to EBITDA ratios, and also limits capital expenditures. As of December 31, 2019 and 2018, the Company was in compliance with

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

these covenants. Coinciding with the earlier Credit Agreement, the Amended Credit Agreement expires in March 2025.

As of December 31, 2019 and 2018 \$68,658 and \$306,108 of interest was included in accrued liabilities in the consolidated balance sheets, respectively.

All outstanding debt matures on March 20, 2025. Future maturities of long-term debt as of December 31, 2019 are as follows:

2020	2,946,308
2021	2,946,308
2022	2,946,308
2023	2,946,308
2024	2,946,308
Thereafter	276,783,788
	<u>\$ 291,515,328</u>

12. Stockholder's Equity

As of December 31, 2019 and 2018, the Company had 1,000 shares of common stock issued, authorized and outstanding, in both periods. The Company issued all 1,000 fully paid, nonassessable shares of the common stock at a par value of \$0.001 per share, in exchange for aggregate subscription consideration of \$1.00.

In accordance with the Certificate of Incorporation, the Company had a total of 1,000 shares of common stock to which it has the authority to issue with a par value of \$0.001 per share.

13. Stock Based Compensation

Class B Profit Interest Units

The Plan provides participants with an opportunity to participate in the distribution of the future profits of the Company. The awards issued under the Plan are also referred to as Class B Profit Interest Units. One third of Class B Profit Interest Units vest over time and are conditioned upon the achievement of a set return on invested capital. Remaining awards vests as the Company achieves multiples of the invested capital and are conditioned upon occurrence of a change in control, Initial Public Offering ("IPO") or a qualified leverage recapitalization ("change in control events"). The Company had 60,277,036 Class B Profit Interest Units authorized to be issued under the Plan.

As of December 31, 2019 the Company determined that it is not probable that the change in control events will occur and, as such, compensation expenses related to the portion of the awards conditioned upon occurrence of these events was not recognized in the financial statements as of and for the year ended December 31, 2019 and the period from September 21, 2018 through December 31, 2018.

The awards that are not conditioned upon occurrence of the change in control events and have a time-vesting component are earned in equal tranches upon each of the anniversaries over the period of five years which was determined to be the requisite service period. These awards are not vested until the return on invested capital condition is met even as the time-vesting condition is met. As of December 31, 2019 and 2018, no units were vested. The fair value of these awards was estimated on the grant date using the Monte Carlo simulation valuation model utilizing a vesting period of 5

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

years, equity volatility of 37.5%, risk-free rate of 1.62% and dividend yield of 0% for both 2018 and 2019 grants.

	Weighted average fair value	Class B profit interest units	Weighted average remaining contractual term
Granted during 2018	\$ 0.24	29,047,420	
Vested during 2018		-	
Forfeited during 2018		-	
Units outstanding as of December 31, 2018		<u>29,047,420</u>	4.72 years
Granted during 2019	\$ 0.35	27,539,227	
Vested during 2019		-	
Forfeited during 2019	\$ 0.24	(10,891,728)	
Units outstanding as of December 31, 2019		<u>45,694,919</u>	3.97 years

Compensation expense related to Class B Profit Interest Units of \$1,350,228 was recognized in general and administrative expenses on the consolidated statements of comprehensive loss during the year ended December 31, 2019. No compensation expense related to these awards was recognized during the period from September 21, 2018 through to December 31, 2018.

As of December 31, 2019, the Company had \$3,300,728 of unrecognized stock-based compensation expense.

Class A-2 units issued to certain executives

The Partnership provided certain executives with ownership interests in the Partnership (known as Class A-2 Units) in exchange for promissory notes and rollover equity, in accordance with the Contribution, Rollover and Subscription agreement. Under the terms of this agreement, the Company's executives were provided ownership interests in the Partnership in exchange for promissory notes.

These agreements are in substance compensation arrangements and are accounted for as instruments similar to a stock option. Compensation expense is recognized at each balance sheet date with the changes in value recorded in the consolidated statements of comprehensive loss over the requisite service period of one year with the corresponding recognition of the non-cash contribution from the Partnership in additional paid-in-capital in the consolidated balance sheet.

The Company elected to account for these awards using the intrinsic valuation technique which represents excess value of the employees' Class A-2 units that were exchanged for promissory notes over the exercise price (which represents the face value of the promissory notes plus accrued interest). 15,600,000 of A-2 units were granted on September 21, 2018 and the intrinsic value of these awards on the grant date was equal to the value of the award. There were no additional grants

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

of these awards during 2019. There were no forfeitures or exercises of these award during the year ended December 31, 2019 and period from September 21, 2018 through to December 31, 2018

As of December 31, 2019, these awards were fully vested and compensation expense of \$4,139,240 was recognized in the consolidated statements of comprehensive loss during the year ended December 31, 2019 which represents the change fair value of these awards at December 31, 2019.

14. Leases

The Company leases office and retail space for its corporate employees and retail operations. Rent expense is recognized on a straight-line basis over the terms of the leases. Future minimum rental payments under all operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 2019 are as follows:

	Capital leases	Operating leases
2020	\$ 1,730,114	\$ 2,288,218
2021	1,403,104	2,047,211
2022	830,835	1,996,034
2023	568,018	1,820,466
2024	314,601	1,330,161
Thereafter	-	6,080,325
Total minimum lease payments	<u>\$ 4,846,672</u>	<u>\$ 15,562,415</u>
Less amount representing interest	<u>548,209</u>	
Present value of net minimum lease payments	\$ 4,298,463	
Less current portion	<u>1,539,382</u>	
Capital lease obligations, less current portion	<u>2,759,081</u>	

Rent expense was \$1,935,810, \$213,202 and \$559,347 for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Minimum capital lease payments are accounted for as principal and interest payments. Interest expense for all capital leases was \$119,323, \$6,836 and \$12,555 for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

15. Related Parties

The Company has several agreements in place with related parties through common ownership of the Partnership, in the ordinary course of business as follows:

- Paycor, a HR and payroll solutions company, provided payroll support services to the Company for the year ended December 31, 2019. No services were provided from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.
- AssuredPartners, a national partnership of financial services firms, provided insurance and employee benefits services to the Company for the year ended December 31, 2019. No services were provided from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

- Thoughtworks, a software development and digital transformation company, provided software solutions to the Company for the year ended December 31, 2019. No services were provided from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

ECCE Advisors Ltd, an advisory firm owned and operated by one of the Company's shareholders, provided mergers and acquisition support services to the Company for the year ended December 31, 2019. No services were provided from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

The Company also employs fourteen individuals who own and operate franchises of wholly owned subsidiary businesses. The Company recorded revenue and the corresponding accounts receivable related to these arrangements for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively. There were no expenses or corresponding accounts payable related to these arrangements for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

Related party transactions consisted of the following:

Related parties through common ownership	Transaction	Successor		Predecessor
		Year ended December 31, 2019	September 21, 2018 Through December 31, 2018	December 31, 2017 Through September 20, 2018
Paycor	Expenses paid	\$ 112,001	\$ -	\$ -
AssuredPartners	Expenses paid	1,311,847	-	-
Thoughtworks	Expenses paid	1,867,887	-	-
Thoughtworks	Accounts Payable	644,791		
Shareholders				
Ecce Advisors Ltd	Expenses paid	\$ 1,044,673	\$ -	\$ -
Employee owned franchises				
	Revenue	\$ 3,055,268	\$ -	\$ -
	Accounts receivable	49,103	-	-

In the Predecessor period, Authority Brands was a party to management services agreements with PNC Riverarch Capital, LLC and certain other institutional and individual investors and was obligated to pay annual management fees under the agreements and related expenses. Authority Brands expensed \$870,515 for the period December 31, 2017 through September 20, 2018 (Predecessor) for such management services and related expenses.

In the Predecessor period, Authority Brands also leased office and retail space for its corporate headquarters and TCA of Columbia, MD location from an entity controlled by a member of Authority Brands. Rent expense, included above, was \$457,000 for the period December 31, 2017 through September 20, 2018 for such leases.

Villa BidCo Inc. and Subsidiaries

Notes to Consolidated Financial Statements

16. Contingencies

The Company is engaged in various legal proceedings incidental to its normal business activities. Management has determined that it is not probable that the Company has incurred any loss contingencies as defined in FASB ASC Topic 450, Contingencies. Accordingly, no liabilities have been recorded for such matters as of December 31, 2019 and 2018. Management believes that the outcome of such matters will not have a material effect on the Company's consolidated financial statements.

17. Employee Benefit Plans

The Company sponsors a 401 (k) plan covering the majority of its employees meeting certain eligibility requirements. The plan provides for matching contributions of 100% of employee contributions, up to 4% of the participating employee's contributions. The Company's contributions to the plan totaled \$755,238, \$51,497 and \$153,529 for the year ended December 31, 2019, the period from September 21, 2018 through December 31, 2018 and the period from December 31, 2017 through September 20, 2018, respectively.

18. Subsequent events

The Company evaluated subsequent events and transactions for potential recognition and disclosure in the consolidated financial statements through May 21, 2020, the date the consolidated financial statements were available to be issued. The Company did not identify any matters except for the items below:

- The World Health Organization declared COVID-19 a global pandemic causing disruptions to global markets. COVID-19 is having an impact on overall economic conditions. As of the date of issuance, some of the in-home service-related franchisee operations have been temporarily closed, however, most of the operations have been deemed by state regulatory agencies as essential services and continue to operate. To date, the Company has not experienced any significant changes in their overall financial results. The duration and intensity of this global health emergency and related disruptions is uncertain. If the closure is prolonged, the related impact on the Company could be material.
- On March 12, 2020, the Company entered into the 2020 Amendment and Incremental Facilities Assumption Agreement to amend certain terms of the Credit Agreement and obtain funding to conduct a pro rata repurchase of equity interests of Villa Aggregator LP, the indirect parent of Villa BidCo Inc. (the "Share Repurchase"). The primary modifications relate to the addition of new financing participants, changes to certain covenants, increase in credit facility available and changes related to audited financial statement requirements. On March 13, 2020, the Company completed the Share Repurchase in the amount of \$62,450,723. On March 19, 2020, the Company drew \$8,000,000 on its line-of-credit.
- On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act contains a number of tax provisions as well as technical corrections to the Tax Cuts and Jobs Act ("TCJA"). Under ASC Topic 740, the effects of these rule changes are recognized in the period of enactment. Management is currently assessing the impact of these new provisions.

UNAUDITED FINANCIAL STATEMENTS

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.

Authority Brands Inc. and Subsidiaries
Consolidated Balance Sheet
As of September 30, 2021

	<u>Sep 30</u> <u>2021</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 57,328,305
Restricted cash	\$ 944,862
Accounts receivable, net	\$ 20,924,903
Inventory, net	\$ 5,550,260
Prepaid expenses and other current assets	\$ 7,066,785
Total current assets	91,815,115
Property and equipment, net	\$ 35,194,293
Intangible assets, net	\$ 418,473,105
Goodwill	\$ 349,491,484
Other assets	\$ 10,684,681
Total assets	<u>\$ 905,658,679</u>
Liabilities and Stockholder's Equity	
Current liabilities	
Accounts payable	\$ 5,660,939
Accrued and other liabilities	\$ 27,719,808
Deferred revenue	\$ 14,216,730
Current maturities on long-term debt	\$ 30,000,000
Total current liabilities	77,597,477
Long-term debt, net	\$ 388,757,237
Deferred tax liability	\$ 29,939,556
Other long-term liabilities	\$ 18,913,497
Total liabilities	515,207,767
Stockholder's equity	<u>\$ 390,450,912</u>
Total liabilities and stockholder's equity	<u>\$ 905,658,679</u>

Authority Brands Inc. and Subsidiaries
Consolidated Statement of Comprehensive Loss
For the Nine Months Ended September 30, 2021

	<u>Nine Months Ended</u> <u>Sep 30, 2021</u>
Revenues	
Franchise service fees	\$ 105,768,475
Franchise sales fees	\$ 2,729,111
Residential services	\$ 96,836,088
Other revenues	\$ 20,413,733
Total revenues	<u>225,747,407</u>
Costs and expenses	
Franchise support expenses	\$ 38,061,682
Franchise sales expenses	\$ 430,115
Residential service expenses	\$ 71,317,789
General and administrative expenses	\$ 61,606,583
Management fees and expenses	\$ 5,631,717
Transaction costs	\$ 1,579,705
Depreciation and amortization	\$ 26,351,146
Total costs and expenses	<u>204,978,738</u>
Operating Income (loss)	20,768,670
Gain on disposal of property and equipment	-
Loss on extinguishment of debt	(9,714,739)
Interest expense, net	\$ (18,612,237)
Loss, before taxes	(7,558,306)
Income tax benefit	\$ 1,125,000
Net loss	(6,433,306)
Other comprehensive income, net of tax	
Change in foreign currency translation adjustment	-
Other comprehensive (loss) income	-
Comprehensive loss	<u>\$ (6,433,306)</u>

GUARANTEE OF PERFORMANCE

For value received, Authority Brands, Inc., a Delaware corporation located at 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046 (the “**Guarantor**”), absolutely and unconditionally guarantees to assume the duties and obligations of Color World New Franchise Systems, LLC, a Delaware limited liability company located at 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046 (the “**Franchisor**”), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its Franchise Disclosure Document issued January 27, 2022, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever occurs first. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor executes this guarantee at Columbia,
Maryland, on the 25 day of January, 2022.

Guarantor: Authority Brands, Inc.

By: 

Name: Silpa Velaga

Title: Chief Financial officer

EXHIBIT J

STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

LIST OF STATE ADMINISTRATORS

We intend to register this disclosure document as a “franchise” in some or all of the following states, if required by the applicable state laws. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, the following are the state administrators responsible for the review, registration, and oversight of franchises in these states:

<p>CALIFORNIA Commissioner Department of Financial Protection and Innovation 320 West Fourth Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 Toll Free: (866) 275-2677</p>	<p>NEW YORK New York State Department of Law Investor Protection Bureau 28 Liberty Street, 21st Floor New York, New York 10005 (212) 416-8285</p>
<p>HAWAII Commissioner of Securities of the State of Hawaii Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 205 Honolulu, Hawaii 96813 (808) 586-2722</p>	<p>NORTH DAKOTA North Dakota Securities Department State Capitol Department 414 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505-0510 (701) 328-4712</p>
<p>ILLINOIS Illinois Office of the Attorney General Franchise Bureau 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p>	<p>RHODE ISLAND Department of Business Regulation Securities Division, Building 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527</p>
<p>INDIANA Secretary of State Franchise Section 302 West Washington, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681</p>	<p>SOUTH DAKOTA Division of Insurance Securities Regulation 124 South Euclid Avenue, 2nd Floor Pierre, South Dakota 57501 (605) 773-3563</p>
<p>MARYLAND Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360</p>	<p>VIRGINIA State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051</p>
<p>MICHIGAN Michigan Attorney General’s Office Corporate Oversight Division, Franchise Section 525 West Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, Michigan 48913 (517) 335-7567</p>	<p>WASHINGTON Department of Financial Institutions Securities Division – 3rd Floor 150 Israel Road, Southwest Tumwater, Washington 98501 (360) 902-8760</p>
<p>MINNESOTA Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101 (651) 539-1600</p>	<p>WISCONSIN Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 266-2139</p>

AGENTS FOR SERVICE OF PROCESS

We intend to register this disclosure document as a “franchise” in some or all of the following states, if required by the applicable state law. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, we will designate the following state offices or officials as our agents for service of process in these states:

<p>CALIFORNIA Commissioner Department of Financial Protection and Innovation 320 West Fourth Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 Toll Free: (866) 275-2677</p>	<p>NEW YORK New York Secretary of State New York Department of State One Commerce Plaza, 99 Washington Avenue, 6th Floor Albany, New York 12231-0001 (518) 473-2492</p>
<p>HAWAII Commissioner of Securities of the State of Hawaii Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 205 Honolulu, Hawaii 96813 (808) 586-2722</p>	<p>NORTH DAKOTA North Dakota Securities Commissioner State Capitol 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505-0510 (701) 328-4712</p>
<p>ILLINOIS Illinois Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465</p>	<p>RHODE ISLAND Director of Department of Business Regulation Department of Business Regulation Securities Division, Building 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527</p>
<p>INDIANA Secretary of State Franchise Section 302 West Washington, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681</p>	<p>SOUTH DAKOTA Division of Insurance Director of the Securities Regulation 124 South Euclid Avenue, 2nd Floor Pierre, South Dakota 57501 (605) 773-3563</p>
<p>MARYLAND Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360</p>	<p>VIRGINIA Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733</p>
<p>MICHIGAN Michigan Attorney General’s Office Corporate Oversight Division, Franchise Section 525 West Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, Michigan 48913 (517) 335-7567</p>	<p>WASHINGTON Director of Department of Financial Institutions Securities Division – 3rd Floor 150 Israel Road, Southwest Tumwater, Washington 98501 (360) 902-8760</p>
<p>MINNESOTA Commissioner of Commerce Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101 (651) 539-1600</p>	<p>WISCONSIN Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 266-2139</p>

EXHIBIT K

STATE DISCLOSURES AND CONTRACT ADDENDA

INFORMATION REQUIRED
BY THE STATE OF CALIFORNIA

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

SEE THE COVER PAGE OF THE DISCLOSURE DOCUMENT FOR OUR WEB SITE ADDRESS. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

Item 3, Additional Disclosure.

Neither we nor any person in Item 2 is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a *et seq.*, suspending or expelling such parties from membership in such association or exchange.

Item 17, Additional Disclosures.

California Business and Professions Code Sections 20000 through 20043 provide rights to California franchisees concerning transfer, termination, or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. § 101 *et seq.*).

The Franchise Agreement contains a liquidated damages clause. Under California Civil Code § 1671, certain liquidated damages clauses are unenforceable.

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

The Franchise Agreement requires application of the laws of the State of Maryland. This provision may not be enforceable under California law.

The Franchise Agreement contains a venue provision for litigation. This provision may not be enforceable under California law.

You must sign a general release if you renew or transfer the franchise. This provision may not be enforceable under California law. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professional Code Section 21000 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

**INFORMATION REQUIRED
BY THE STATE OF ILLINOIS**

Cover Page, Additional Disclosures.

THE GOVERNING LAW, VENUE AND JURISDICTION REQUIREMENTS IN THE DISCLOSURE DOCUMENT AND THE FRANCHISE AGREEMENT ARE SUBJECT TO THE PROVISIONS OF THE ILLINOIS FRANCHISE DISCLOSURE ACT, AND NOTHING IN THESE DOCUMENTS SHALL BE CONSIDERED A WAIVER OF ANY RIGHT CONFERRED UPON YOU BY THE ILLINOIS FRANCHISE DISCLOSURE ACT.

Item 17, Additional Disclosures.

The conditions under which the Franchise Agreement can be terminated and your rights upon non-renewal may be affected by Sections 19 and 20 of the Illinois Franchise Disclosure Act.

Pursuant to Section 4 of the Illinois Franchise Disclosure Act, any provision in the Franchise Agreement that designates jurisdiction or venue for litigation in a forum outside of Illinois is void.

The Illinois Franchise Regulations, Section 200.608, require that Illinois law govern franchise agreements entered into in Illinois.

ILLINOIS ADDENDUM TO THE FRANCHISE AGREEMENT

This Addendum relates to franchises sold in Illinois and is intended to comply with Illinois statutes and regulations. The parties agree to modify the Franchise Agreement as follows:

1. Termination. Section 16 is amended by adding the following:

If anything in this Section concerning termination is inconsistent with Section 19 of the Illinois Franchise Disclosure Act of 1987, then the Act shall apply.

2. Renewal. Section 19 is amended by adding the following:

If anything in this Section concerning non-renewal is inconsistent with Section 20 of the Illinois Franchise Disclosure Act of 1987, then the Act shall apply.

3. Governing Law. Section 23.1 is deleted. The Illinois Franchise Regulations, Section 200.608, require that Illinois law govern franchise agreements entered into in Illinois.

4. Venue for Litigation. Section 23.6 is amended by adding the following:

Section 4 of the Act states that any provision in a franchise agreement that designates jurisdiction or venue for litigation in a forum outside of Illinois is void with respect to any action which is otherwise enforceable in Illinois.

5. Time Limit on Filing. Section 23.5 is amended by adding the following:

Any claims arising under the Act shall be commenced within the period of limitation established in Section 27 of the Act.

6. Section 41 of the Illinois Franchise Disclosure Act of 1987 states that any condition, stipulation, or provision purporting to bind any person acquiring a franchise to waive compliance with any provision of the Act or any other law of Illinois is void. Section 41 will control over any inconsistent provisions in the Franchise Agreement.

7. This Addendum will have effect only if the Franchise Agreement and/or the relationship between Franchisor and you satisfy all of the jurisdictional requirements of the Illinois Franchise Disclosure Act of 1987, without considering this Addendum. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

[Signatures on Following Page]

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

INDIANA ADDENDUM TO THE FRANCHISE AGREEMENT

This Addendum relates to franchises sold in Indiana and is intended to comply with the Indiana statutes and regulations. The parties agree to supplement the Franchise Agreement as follows:

1. Pursuant to Section 23.2-2.7-1 of the Indiana Code, it is unlawful for any franchise agreement entered into between any franchisor and a franchisee who is either a resident of Indiana or a nonresident who will be operating a franchise in Indiana to contain any of the following provisions:

(1) Requiring goods, supplies, inventories, or services to be purchased exclusively from the franchisor or sources designated by the franchisor where such goods, supplies, inventories, or services of comparable quality are available from sources other than those designated by the franchisor. However, the publication by the franchisor of a list of approved suppliers of goods, supplies, inventories, or service or the requirement that such goods, supplies, inventories, or services comply with specifications and standards prescribed by the franchisor does not constitute designation of a source nor does a reasonable right of the franchisor to disapprove a supplier constitute a designation. This subdivision does not apply to the principal goods, supplies, inventories, or services manufactured or trademarked by the franchisor.

(2) Allowing the franchisor to establish a franchisor-owned outlet engaged in a substantially identical business to that of the franchisee within the exclusive territory granted the franchisee by the franchise agreement; or, if no exclusive territory is designated, permitting the franchisor to compete unfairly with the franchisee within a reasonable area.

(3) Allowing substantial modification of the franchise agreement by the franchisor without the consent in writing of the franchisee.

(4) Allowing the franchisor to obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than for compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted to the franchisee.

(5) Requiring the franchisee to prospectively assent to a release, assignment, novation, waiver, or estoppel which purports to relieve any person from liability to be imposed by this chapter or requiring any controversy between the franchisee and the franchisor to be referred to any person, if referral would be binding on the franchisee. This subdivision does not apply to arbitration before an independent arbitrator.

(6) Allowing for an increase in prices of goods provided by the franchisor which the franchisee had ordered for private retail consumers prior to the franchisee's receipt of an official price increase notification. A sales contract signed by a private retail consumer shall constitute evidence of each order. Price changes applicable to new models of a product at the time of introduction of such new models shall not be considered a price increase. Price increases caused by conformity to a state or federal law, or the revaluation of the United States dollar in the case of foreign-made goods, are not subject to this subdivision.

(7) Permitting unilateral termination of the franchise if such termination is without good cause or in bad faith. Good cause within the meaning of this subdivision includes any material violation of the franchise agreement.

(8) Permitting the franchisor to fail to renew a franchise without good cause or in bad faith. This chapter shall not prohibit a franchise agreement from providing that the agreement is not renewable upon expiration or that the agreement is renewable if the franchisee meets certain conditions specified in the agreement.

(9) Requiring a franchisee to covenant not to compete with the franchisor for a period longer than three (3) years or in an area greater than the exclusive area granted by the franchise agreement or, in absence of such a provision in the agreement, an area of reasonable size, upon termination of or failure to renew the franchise.

(10) Limiting litigation brought for breach of the agreement in any manner whatsoever.

(11) Requiring the franchisee to participate in any:

(A) advertising campaign or contest;

(B) promotional campaign;

(C) promotional materials; or

(D) display decorations or materials;

at an expense to the franchisee that is indeterminate, determined by a third party, or determined by a formula, unless the franchise agreement specifies the maximum percentage of gross monthly sales or the maximum absolute sum that the franchisee may be required to pay.

2. If the Franchise Agreement contains a provision that is inconsistent with the Indiana Code, the provisions of the Indiana Code will supersede the Franchise Agreement.

3. This Addendum will have effect only if the Franchise Agreement and/or the relationship between you and Franchisor satisfy all of the jurisdictional requirements of the Indiana Code, without considering this Addendum. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

INFORMATION REQUIRED
BY THE STATE OF MARYLAND

Item 17, Additional Disclosures.

The Franchise Agreement requires you to sign a general release as a condition of renewal or transfer of the franchise. This releases will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.

Item 22, Additional Disclosure.

Your responses to the Questionnaire do not act as a release, estoppel, or waiver of any liability of the Franchisor under the Maryland Franchise Registration and Disclosure Law.

**MARYLAND ADDENDUM TO THE
FRANCHISE AGREEMENT**

In recognition of the Maryland Franchise Registration and Disclosure Law, Maryland Stat. §§ 14-201 to 14-233, and the Rules and Regulations promulgated thereunder, the parties agree to modify the Franchise Agreement as follows:

1. Releases. Section 15.2.4 and Section 19.1.7 are each amended to add the following:

This release will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

2. Entire Agreement. Section 22.12 is amended by adding the following:

Notwithstanding anything to the contrary in this Agreement, you are not required to waive any of your rights under the Maryland Franchise Registration and Disclosure Law with regard to our prior representations.

3. Time Limit on Filing. Section 23.5 is amended by adding the following:

The foregoing limitation on the period of time arbitration and/or litigation claims must be brought shall not act to reduce the 3-year statute of limitations afforded a franchisee for bringing a claim arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

4. This Addendum will have effect only if the Franchise Agreement and/or the relationship between Franchisor and you satisfy all of the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, without considering this Addendum. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

**INFORMATION REQUIRED
BY THE STATE OF MICHIGAN**

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 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, or 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 of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
 - (i) the failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) the fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) the unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) the failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

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

Any questions regarding these Additional Disclosures shall be directed to the Department of the Attorney General, Consumer Protection Division, 670 Law Building, 525 West Ottawa Street, Lansing, Michigan 48913, (517) 373-7717.

*** NOTE: NOTWITHSTANDING PARAGRAPH (f) ABOVE, WE INTEND TO, AND YOU AGREE THAT WE AND YOU WILL, ENFORCE FULLY THE PROVISIONS OF THE ARBITRATION SECTION OF OUR AGREEMENTS. WE BELIEVE THAT PARAGRAPH (f) IS UNCONSTITUTIONAL AND CANNOT PRECLUDE US FROM ENFORCING THE ARBITRATION PROVISIONS.**

INFORMATION REQUIRED
BY THE STATE OF MINNESOTA

Item 13, Additional Disclosure.

We will indemnify you against liability to a third party resulting from claims that your use of the Marks infringes trademark rights of the third party, provided that your use of the Marks is in accordance with the requirements of the Franchise Agreement and the System.

Item 17, Additional Disclosures.

We will comply with Minnesota Statutes Section 80C.14, subdivisions 3, 4, and 5, which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.

Minnesota Statutes § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring you to waive your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Minnesota Rule 2860.4400D prohibits us from requiring you to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statutes §§ 80C.01 - 80C.22.

Minnesota Rule 2860.4400J prohibits us from requiring you to waive your rights to a trial or to consent to liquidated damages, termination penalties, or judgment notes. This rule does not bar a voluntary arbitration of any matter.

MINNESOTA ADDENDUM TO THE FRANCHISE AGREEMENT

In recognition of the Minnesota Franchises Law, Minn. Stat. §§ 80C.01-80C.22, and the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, the parties agree to modify the Franchise Agreement as follows:

1. Releases. The following sentence is added to Section 15.2 and Section 19.1.7:

Notwithstanding the foregoing, Franchisee will not be required to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 - 80C.22, provided that the foregoing shall not bar the voluntary settlement of disputes.

2. Term and Successor Franchise Agreement; Default and Termination. Sections 3, 16, and 19 are each amended by adding the following:

Notwithstanding anything to the contrary in Sections 3, 16, and 19, Franchisor will comply with Minnesota Statutes Clause 80C.14, Subdivision 3, 4, and 5, which require, except in certain cases, that Minnesota franchisees be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.

3. Licensed Marks and Copyrights. Section 11 is amended by adding the following:

Franchisor will indemnify you against liability to a third party resulting from claims that your use of the Marks or the Works infringes trademark rights of the third party, provided that your use is in accordance with the requirements of the Franchise Agreement and the System.

4. Time Limit on Filing. Section 23.5 is amended to add the following:

Notwithstanding anything to the contrary in this Section, any claim or action arising out of or relating to the Minnesota Franchises Law must be commenced within three (3) years from the occurrence of the facts giving rise to the claim or action, or the claim or action is barred.

5. Jurisdiction and Venue. Section 23.6 is amended to add the following:

Under Minnesota Statutes Section 80C.21, this section will not in any way abrogate or reduce any rights of the Franchisee as provided for in Minnesota Statutes, Chapter 80C, including the right to submit matters to the jurisdiction of the courts in Minnesota. Minnesota Statutes Section 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota.

6. Entire Agreement. Section 22 is amended by adding the following:

Pursuant to Minn. Stat. § 80C.21 and Minn. Rule Part 2860.4400J, nothing in the Agreement shall in any way abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C.

7. This Addendum will have effect only if the Franchise Agreement and/or the relationship between you and Franchisor satisfy all of the jurisdictional requirements of Minnesota Statutes §§ 80C.01 - 80C.22. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

**INFORMATION REQUIRED
BY THE STATE OF NEW YORK**

Cover page, Additional Disclosures.

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT J OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271.

FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE DISCLOSURE DOCUMENT. HOWEVER, FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON YOU TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS DISCLOSURE DOCUMENT.

FRANCHISOR REPRESENTS THAT THIS DISCLOSURE DOCUMENT DOES NOT KNOWINGLY OMIT ANY MATERIAL FACT OR CONTAIN ANY UNTRUE STATEMENT OF MATERIAL FACT.

Item 3, Additional Disclosures.

Except as disclosed in Item 3, neither Franchisor nor any person listed in Item 2:

1. Has any administrative, criminal or material civil action pending against that person alleging: a felony; a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations. There are no pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of Franchisor franchises and the size, nature or financial condition of the System or its business operations.

2. Has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the date of this disclosure document, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

3. Is subject to a currently effective injunctive or restrictive order or decree relating to the Franchisor franchise or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange (as defined in the Securities and Exchange Act of 1934) suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity

as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

Item 4, Additional Disclosure.

Except as described in this Item, neither Franchisor, its affiliates, its predecessors, officers, nor general partners, during the ten-year period immediately before the date of the disclosure document: (a) filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or any foreign bankruptcy laws; (b) obtained a discharge of its debts under the U.S. Bankruptcy Code or any foreign bankruptcy laws; or (c) was a principal officer of a company or general partner of 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 any foreign bankruptcy laws, or that obtained a discharge of its debts under the U.S. Bankruptcy Code or any foreign bankruptcy laws during or within one year after the officer or general partner of Franchisor held this position in the company or partnership.

Item 5, Additional Disclosure.

We use the initial franchise fee to defray our costs of offering franchises and assisting franchisees to start business. A portion of the initial franchise fee may be profit to us.

Item 17, Revised Disclosures.

1. *In the Item 17 Table, the following sentence is added to item "d":*

You may also terminate the Franchise Agreement on any grounds available by law.

2. *In the Item 17 Table, the following sentence is added to item "j":*

However, no assignment will be made by Franchisor except to an assignee who, in Franchisor's good faith judgment, is willing and able to assume Franchisor's obligations under the Franchise Agreement.

3. *In the Item 17 Table, the following sentence is added to item "w":*

The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York, Article 33.

Item 17, Additional Disclosures.

The New York General Business Law, Article 33, Sections 680 through 695 may supersede any provision of the Franchise Agreement inconsistent with that law.

You must sign a general release if you renew or transfer a franchise. This provision may not be enforceable under New York law.

**NEW YORK ADDENDUM TO THE
FRANCHISE AGREEMENT**

In recognition of the requirements of the New York General Business Law, Article 33, Sections 680 through 695, and of the regulations promulgated thereunder (N.Y. Comp. Code R. & Regs., tit. 13, §§ 200.1 through 201.16), the parties agree to modify the Franchise Agreement as follows:

1. Any provision in the Franchise Agreement that is inconsistent with the New York General Business Law, Article 33, Sections 680 – 695 may not be enforceable.

2. Releases. Section 15.2.4 and Section 19.1.7 are each amended to add the following:

The foregoing release of claims against Franchisor does not release any claim you may have under New York General Business Law, Article 33, Sections 680-695.

3. Assignment by Franchisor. Section 15 is amended by adding the following:

Franchisor will not assign its rights under the Franchise Agreement except to an assignee who in Franchisor's good faith judgment is willing and able to assume Franchisor's obligations under the Franchise Agreement.

4. Termination by Franchisee. Section 16 is amended by adding the following:

You may terminate this Agreement on any grounds available by law under the provisions of Article 33 of the General Business Law of the State of New York.

5. Governing Law. Section 23.1 is amended by adding the following:

Notwithstanding the foregoing, the New York General Business Law shall govern any claim arising under that law.

6. This Addendum will have effect only if the Franchise Agreement and/or the relationship between Franchisor and you satisfy all of the jurisdictional requirements of New York General Business Law, without considering this Addendum. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

INFORMATION REQUIRED
BY THE STATE OF NORTH DAKOTA

Item 17, Additional Disclosures. The following statements are added to Item 17:

The North Dakota Securities Commissioner has held the following to be unfair, unjust, or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

- A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to arbitrate disputes at a location that is remote from the site of the franchisee's business.
- C. Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that any claims arising under the North Dakota franchise law will be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary and Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.
- H. General Release: Requiring North Dakota franchisees to execute a general release of claims as a condition of renewal or transfer of a franchise.
- I. Limitation of Claims: Requiring that North Dakota franchisees to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Requiring that North Dakota franchisees to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

Each provision of the Additional Disclosures shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of the Additional Disclosures. The Additional Disclosures shall have no force or effect if such jurisdictional requirements are not met.

NORTH DAKOTA ADDENDUM TO FRANCHISE AGREEMENT

In recognition of the requirements of the North Dakota Franchise Investment Law, N.D. Cent. Code §§ 51-19-01 through 51-19-17, and the policies of the North Dakota Securities Commission, the parties agree to modify the Franchise Agreement as follows:

1. The North Dakota Securities Commissioner has held the following to be unfair, unjust, or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

- A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to arbitrate disputes at a location that is remote from the site of the franchisee's business.
- C. Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that any claims arising under the North Dakota franchise law will be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary and Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.
- H. General Release: Requiring North Dakota franchisees to execute a general release of claims as a condition of renewal or transfer of a franchise.
- I. Limitation of Claims: Requiring that North Dakota franchisees to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Requiring that North Dakota franchisees to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

[Signatures on Following Page]

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

**RHODE ISLAND ADDENDUM TO THE
FRANCHISE AGREEMENT**

In recognition of the Rhode Island Franchise Investment Act, §§ 19-28.1-1 through 19-28.1-34, the parties agree to modify the Franchise Agreement as follows:

1. Governing Law. Section 23.1 is amended by adding the following:

Notwithstanding the foregoing, Rhode Island law governs any claim arising under the Rhode Island Franchise Investment Act.

2. Jurisdiction and Venue. Section 23.6 is amended by adding the following:

Notwithstanding the foregoing, you have the right to file any litigation under the Rhode Island Franchise Investment Act in Rhode Island.

3. This Addendum will have effect only if the Franchise Agreement and/or the relationship between you and Franchisor satisfy all of the jurisdictional requirements of the Rhode Island Franchise Investment Act, without considering this Addendum. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

Color World New Franchise Systems, LLC

FRANCHISEE (Print name of company):

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

INFORMATION REQUIRED
BY THE COMMONWEALTH OF VIRGINIA

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for use in the Commonwealth of Virginia is amended to add the following:

According 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 does not constitute “reasonable cause,” as that the term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, the provision may not be enforceable.

According to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable

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

STATE	EFFECTIVE DATE
California	
Hawaii	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
Rhode Island	
South Dakota	
Virginia	
Washington	
Wisconsin	

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

RECEIPT
(Retain This Copy)

This disclosure document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If we offer you a franchise, we must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us 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 Agreement or other agreement or the payment of any consideration that relates to the franchise relationship. **Michigan** requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. **Iowa** requires that we give you this Disclosure Document at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If we do 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, DC 20580, and the appropriate state agency identified on Exhibit J.

Issuance Date: January 27, 2022

The franchisor is Color World New Franchise Systems, LLC located at 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046. Its telephone number is (410) 740-1900. The franchise sellers are: Thomas Hodgson, Jon Boston, Stewart Vernon, Michael Pearce, David Montanez, Zachary Griming, , Hugh Robertson and Julie Murray at the above address. Any other franchise sellers will be provided to you separately before you sign a franchise agreement: _____

We authorize the respective state agencies identified on Exhibit J to receive service of process for us in the particular state.

I have received a disclosure document dated January 27, 2022 that included the following Exhibits:

A. Franchise Agreement (including Data Sheet, Brand Appendix, Confidentiality and Non-Compete Agreement, Telephone Number and Internet Agreement, and EFT Agreement)	F. Franchisees as of December 31, 2020
B. Promissory Note, Guaranty, and Security Agreement	G. Franchisees Who Exited a Franchise in 2020
C. Renewal Addendum	H. Operations Manual Table of Contents
D. Sample of General Release	I. Financial Statements
E. Questionnaire	J. List of State Administrators and Agents for Service of Process
	K. State Addenda/State Franchise Agreement Amendments

Date Received

Signature of Prospective Franchisee

Name (please print)

RECEIPT
(Our Copy)

This disclosure document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If we offer you a franchise, we must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us 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 Agreement or other agreement or the payment of any consideration that relates to the franchise relationship. **Michigan** requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. **Iowa** requires that we give you this Disclosure Document at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If we do 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, DC 20580, and the appropriate state agency identified on Exhibit J.

Issuance Date: January 27, 2022

The franchisor is Color World New Franchise Systems, LLC located at 7120 Samuel Morse Drive, Suite 300, Columbia, Maryland 21046. Its telephone number is (410) 740-1900. The franchise sellers are: Thomas Hodgson, Jon Boston, Stewart Vernon, Michael Pearce, David Montanez, Zachary Griming, Hugh Robertson and Julie Murray at the above address. Any other franchise sellers will be provided to you separately before you sign a franchise agreement: _____

We authorize the respective state agencies identified on Exhibit J to receive service of process for us in the particular state.

I have received a disclosure document dated January 27, 2022 that included the following Exhibits:

A. Franchise Agreement (including Data Sheet, Brand Appendix, Confidentiality and Non-Compete Agreement, Telephone Number and Internet Agreement, and EFT Agreement)	F. Franchisees as of December 31, 2020
B. Promissory Note, Guaranty, and Security Agreement	G. Franchisees Who Exited a Franchise in 2020
C. Renewal Addendum	H. Operations Manual Table of Contents
D. Sample of General Release	I. Financial Statements
E. Questionnaire	J. List of State Administrators and Agents for Service of Process
	K. State Addenda/State Franchise Agreement Amendments

Date Received

Signature of Prospective Franchisee

Name (please print)