

FRANCHISE DISCLOSURE DOCUMENT



Smart Franchise LLC
a Colorado limited liability company
609 Gyrfalcon Court, Suite A
Windsor, CO 80550
970-590-8777
www.smartcarpetcleaning.com

We offer franchises for mobile businesses that provide environmentally friendly and low water carpet cleaning services to commercial and residential customers utilizing our proprietary soil transfer technology processes, cleaning solutions, and procedures (each a “Smart Carpet Cleaning Business”).

The total investment necessary to begin operation of a Smart Carpet Cleaning Business under a Smart Carpet Cleaning Franchise Agreement (“Franchise Agreement”) is \$111,425 to \$178,225. This amount includes \$61,900 to \$66,500 that is payable to us.

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 Gabby Lorenzen, 609 Gyrfalcon Court, Suite A, Windsor, CO 80550 and 970-590-8777.

The terms of your contract will govern your franchise relationship. Don't 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.

The issuance date of this Franchise Disclosure Document is March 4, 2024.

HOW TO USE THIS FRANCHISE DISCLOSURE DOCUMENT

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

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

WHAT YOU NEED TO KNOW ABOUT FRANCHISING GENERALLY

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

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

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

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

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

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

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

SOME STATES REQUIRE REGISTRATION

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

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

SPECIAL RISKS TO CONSIDER ABOUT THIS FRANCHISE

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

1. **OUT-OF-STATE DISPUTE RESOLUTION.** THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH THE FRANCHISOR BY MEDIATION AND/OR LITIGATION ONLY IN COLORADO. OUT-OF-STATE MEDIATION OR LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO MEDIATE OR LITIGATE WITH THE FRANCHISOR IN COLORADO THAN IN YOUR OWN STATE.

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

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- A. Additional State Required Disclosures
- B. List of State Administrators and Agents for Service of Process
- C. Confidentiality Agreement
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- K. Receipts

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

This disclosure document describes Smart Carpet Cleaning Business franchises. In this disclosure document, “we,” “us,” and “our” mean Smart Franchise LLC, the franchisor, and “you” and “your” means the purchaser of the franchise. If the purchaser of the franchise is a corporation, partnership, or limited liability company, then the term “you” means both the purchaser and the persons who own the franchised Smart Carpet Cleaning Business entity.

The Franchisor

Smart Franchise LLC is a Colorado limited liability company formed in March 2021. We do business under our corporate name and Smart Carpet Cleaning. We do not conduct business under any other name. Our principal place of business is 609 Gyrfalcon Court, Suite A, Windsor, Colorado 80550. Our agents for service of process are listed in Exhibit B. We began offering franchises for Smart Carpet Cleaning Businesses in June 2021. We do not operate any Smart Carpet Cleaning Businesses although our affiliate, Smart Carpet Care, LLC operates one Smart Carpet Cleaning Business in Colorado. We have never offered franchises in any other line of business.

Our Parent, Predecessors, and Affiliates

From 1991 until 2005, our President and Chief Executive Officer Robert E. Valois, tested and refined our proprietary carpet cleaning solution and method. Our affiliate, Smart Carpet Care, LLC, a Colorado limited liability company organized in 2005, has operated a Smart Carpet Cleaning Business in Colorado since 2005 (which we refer to in this Disclosure Document as our “Affiliate-Owned Business”). Smart Carpet Care, LLC has not sold, and does not sell, franchises in any line of business.

Our affiliate, Smart Supply Co., a Colorado limited liability company organized in 2006, is the exclusive supplier of certain products and equipment used by Smart Carpet Cleaning Businesses. Smart Supply Co. has not sold, and does not sell, franchises in any line of business.

Our affiliate, EC-64, LLC, a Colorado limited liability company organized in 2011, owns EC-64, our proprietary carpet cleaning solution formula as a trade secret and is responsible for manufacturing and sales of EC-64 to our affiliate, Smart Supply Co., for resale to Smart Carpet Cleaning Businesses. EC-64, LLC has not sold, and does not sell, franchises in any line of business.

Our predecessor, Smart Franchise Inc., a Colorado corporation formed in 2013 offered Smart Carpet Cleaning franchises from July 2020 to December 2020 and was dissolved in March 2021.

The Smart Carpet Cleaning Franchise

Smart Carpet Cleaning Businesses are mobile businesses that provide environmentally friendly and low water carpet cleaning services to commercial and residential customers utilizing our proprietary soil transfer technology processes, cleaning solutions, and procedures (the “System”). The distinguishing characteristics of the System include our standards, policies and procedures for: our proprietary carpet cleaning solutions, equipment and procedures; vehicles, uniforms and equipment; operations, staffing and employee training; customer service; maintaining quality and consistency of service offering; information technology, customer intake and management solutions, and software systems; sales, advertising, promotion, public relations, and social media; and copyrights and copyrighted materials (“Proprietary Materials”), all of which we may change, improve, and further develop from time to time.

Smart Carpet Cleaning Businesses use vans that have two carpet cleaning machines that use our proprietary formula and cleaning process using much less water than the more prevalent steam cleaning (hot water extraction) methods used by many of our competitors, thereby minimizing the problems of long

drying time, spots returning, and carpets looking soiled in high traffic areas soon after treatment. Our process can deep clean carpets and has the power to restore carpets to the extent possible. Smart Carpet Cleaning Businesses can achieve the needed cleaning results in shorter periods of time than steam cleaning, thereby reducing the amount of labor needed to complete the job. Smart Carpet Cleaning Businesses utilize warehouse space or a storage location to store vehicles, equipment, and supplies (the "Shop").

When you are evaluating whether to purchase a franchise, you will acquire confidential information about the System. You must sign a Confidentiality Agreement, which is attached as Exhibit C, before we will provide access to this information. If you are awarded a franchise, you will sign the Franchise Agreement, the current form of which is attached as Exhibit D to this disclosure document, you will pay an initial franchise fee (see Item 5), and you will receive a license to utilize our System and our service mark, "SMART®," and our logo, as well as related trade names, service marks, trademarks, logos, emblems, and indicia of origin (the "Marks"). We and our affiliates may modify the Marks from time to time. Each franchised Smart Carpet Cleaning Business ("Franchised Business") receives a protected territory ("Territory") with a minimum population ranging between 175,000 and 200,000 in which we will not operate or permit another franchisee to operate another Smart Carpet Cleaning Business. You may perform the administrative functions of your Franchised Business from your Shop or from a residential address if permitted by local zoning laws. You may not operate the Franchised Business from a retail space or provide service to customers from your Shop or any administrative office. Your Shop must be located within your Territory.

Our mandatory and recommended standards, policies and procedures are represented in our confidential and proprietary operations manual (the "Manual"), which we will make available to our franchisees during the term of their Franchise Agreement. We have the right to change the Manual and the elements of the System from time to time.

We carefully evaluate persons and entities who wish to become our franchisees. We cannot, however, conclusively determine whether you will succeed as a Smart Carpet Cleaning franchisee. Similarly, completion of our training program (as described in Item 11) does not provide any assurance of your success. In making the decision to become a franchisee and to operate a Smart Carpet Cleaning Business you must rely on your own assessment of your knowledge of the carpet cleaning industry, the market in which you will locate your business, your people management skills, sales and customer service skills, business acumen and financial management strength as well as your passion for operating the business. We strongly recommend that you seek the advice of both professional and personal advisors before making the decision to pursue becoming a Smart Carpet Cleaning franchisee.

Applicable Regulations

We are not aware of any laws or regulations applicable to a Smart Carpet Cleaning Business that would not apply generally to businesses providing carpet cleaning services. As a Smart Carpet Cleaning franchisee you are responsible for ensuring your compliance with all applicable local, county, state and federal laws and regulations, which apply generally to the carpet cleaning services industry. These include environmental laws and regulations, including OSHA regulations, pertaining to the use of chemicals, and health, discrimination, employment, sexual harassment and advertising laws. There are other laws and regulations applicable to businesses generally (such as the Americans with Disabilities Act, the Fair Labor Standards Act, and The Patriot Act) with which you must comply. You should consult with your attorney and local, county, state and federal government agencies concerning these and other laws and ordinances that may affect the operation of a Smart Carpet Cleaning Business before you sign a Franchise Agreement. You also must obtain all applicable permits and licenses required to operate your business. We recommend that you examine and consider the impact of these and all applicable laws, regulations, and standards before entering into any agreement with us. It is your, and only your, responsibility, on a continuous basis to investigate and satisfy all local, county, state and federal laws as they vary from place to place and may change from time to time.

Competition

The market for carpet cleaning service providers is well established. Smart Carpet Cleaning Businesses will compete with other carpet cleaning businesses and janitorial companies, some of which may offer the same or similar services to those offered by Smart Carpet Cleaning businesses. These competitors may range from franchise systems, independents, and other businesses offering similar services. In addition, many of these competitors may have substantial financial, marketing and other resources and they may already be well-established in your market. The ability of each Smart Carpet Cleaning Business to compete depends on the market, number of businesses, employee selection and training, customer service, overhead costs, changing local market and economic conditions and many other factors both within and outside your control or our control.

ITEM 2 **BUSINESS EXPERIENCE**

President and Chief Executive Officer: Robert E. Valois

Mr. Valois has served as our President and Chief Executive Officer since our formation in March 2021. He has been the General Manager of Smart Carpet Care, LLC since October 2005, General Manager of Smart Supply Co. since October 2006 and General Manager of EC-64, LLC since October 2011. He was President and Chief Executive Officer of our predecessor, Smart Franchise Inc., from December 2012 to March 2021.

Chief Development Officer: Dan Kramig

Mr. Kramig has served as our Chief Development Officer since May 2022. From December 2017 to April 2022, Mr. Kramig served as Executive Director of Franchise Development for Pet Wants Franchise System, LLC in Cincinnati, Ohio.

Director of Franchise Operations: Gabby Lorenzen

Mrs. Lorenzen has served as our Director of Franchise Operations since our formation in March 2021. She also has served as Smart Carpet Care, LLC's Office Manager since November 2016. She was Director of Franchise Operations for our predecessor, Smart Franchise Inc., from August 2017 to March 2021.

ITEM 3 **LITIGATION**

No litigation is required to be disclosed in this Item.

ITEM 4 **BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

ITEM 5
INITIAL FEES

Initial Franchise Fee

When you sign the Franchise Agreement, you must pay us a base initial franchise fee in a lump sum in the amount of \$34,000 for a Territory containing a population between 175,000 and 200,000 people. If the population in your Territory exceeds 200,000 people, then you must pay an additional \$500 for all or part of every 1,000 people over 200,000.

Initial Inventory – Liquid

You must purchase your initial inventory of EC-64 and other liquid cleaning supplies for your first year of operation from our affiliate, Smart Supply Co., prior to opening your Franchised Business at an estimated cost of \$9,400 to \$11,000. This does not include shipping and handling costs.

Equipment and Supplies Packages

You must purchase our Training Package and our Van Stock Package of equipment and supplies from our affiliate, Smart Supply Co. within 30 days after signing your Franchised Business.

Training Package. The training package has an estimated cost of \$16,000 to \$18,500. The contents of the package are listed below:

Description	Quantity
Carpet Rotary Machine 17" Pacific FM-17DS	2
Multi-Sprayer SC2, Cordless 12V w/Unijet 730321, 25' coil	2
Fiskars Micro-Tip Pruning Snip	2
Eyeglass Soft Pouch Case	2
Plastic Super Scraper	2
Drive Block 15" w/riser	2
Clutch Plate - Metal	2
Pacific Stopper Bkt Assy	2
Pacific Baseplate Handle	2
Pacific Drive Blk Holder Stainless	2
Pacific Hour Meter	2
1 FT Extension Cord with Lock	2
18" Nylon Static Pads (18/CS)	15
18" Static Brush Pads (6/CS)	5
EC-64 (12 BOT/CS)	1
Lift Off #1 (22 OZ)	1
Lift Off #2 (22 OZ)	2
Lift Off #3 (22 OZ)	2

Description	Quantity
Lift Off #5 (22 OZ)	2
One Ounce Pump Dispenser	1

Van Stock Package. The Van Stock Package has an estimated cost of \$2,500 to \$3,000. The contents of the package are listed below:

Description	Quantity
Electric Cord 50' 12/3	1
Multi-Sprayer 2 Gallon Jugs	10
Riccar Vacuum R25S with longer hose, metal tube	2
Riccar Vacuum Bags	1
Rubbermaid Pop-Up Safety Cones 20"	4
Blacklight uvBeast LED 365nm	1
Amber UV Safety Glasses	2
Amber UV 1X2 smart phone lens cover	2
Mileseely Laser Tool	1
Grandi Groom AB24 Stiff Bristle Rake	2
Grandi Brush AB28 Soft Black Brush Rake	2
Chapin International 48 oz Hand Sprayers	2
*Spotter Kit/Stocked	1
*Spares Container/Stocked	1
*Heat Transfer Kit/Stocked	1
*Toolkit for Van	1
3' Polyethylene Garden Stake	1
Handiwipes	1
Kitchen Bags	1
Firm Grip Nitrile Coated Gloves box - 100	1
Safety Data Sheets in Binder	2
First Aid Kit	1
Respirator N95 Mask pk of 20	1
Fat Ivan Door Jam	4

Training Fees

If we authorize you to send more than two people to our initial training program, you must pay a training fee in the amount of \$1,000 for each additional trainee. If you acquire your Franchised Business

through a transfer, then your Managing Owner will be required to attend our initial training program and in lieu of paying an initial franchise fee, you will pay a transfer training fee in the amount of \$1,000.

Discounts

If you purchase a franchise to operate an additional Franchised Business after you purchase your first Smart Carpet Cleaning franchise, you are eligible to receive a \$5,000 discount off of the initial franchise fee.

In order to encourage the development and operation of franchised Smart Carpet Cleaning businesses by veterans of the United States military, we offer a \$2,000 discount off of the initial franchise fee for qualified Veteran-Owned Businesses. A “Veteran-Owned Business” means a business entity that is at least 51% owned, operated and controlled on a daily basis by one or more Veterans. A “Veteran” means a person who has provided a DD Form 214 or other adequate documentation demonstrating honorable discharge from the United States military.

You may only receive one discount off the initial franchise fee on the purchase of any given franchise.

* * * * *

These fees referenced in this Item 5 are non-refundable and are typically uniform for all new franchisees in the System; however, in certain circumstances, we may reduce or waive a fee.

ITEM 6
OTHER FEES

Type of Fee (Note 1)	Amount	Date Due	Remarks
Royalty Fee	Greater of 6% of Gross Sales or \$300	5 th day of each month	You will start paying the Royalty Fee on the 5 th day of the third month following the opening of the Franchised Business. The Royalty Fee payable each month is based on the Gross Sales from the month ending two months prior to the due date. For example, the Royalty Fee for the first month of Gross Sales is due on the 5 th day of the third month of operations. See Note 2 for a definition of Gross Sales. See Note 3 for an explanation of our electronic funds transfer process.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Brand Fund Contribution	Currently, \$0 If we implement a Brand in the future, you must contribute the greater of 2% of Gross Sales or \$250	5 th day of each month	You will start paying the Brand Fund Contribution on the 5 th day of the third month following the opening of the Franchised Business. The Brand Fund Contribution payable each month is based on the Gross Sales from the month ending two months prior to the due date. For example, the Brand Fund Contribution for the first month of Gross Sales is due on the 5 th day of the third month of operations. Please see Item 11 for further details regarding the Brand Fund.
Technology Fee	Currently, \$290	5 th day of each month	We use the Technology Fee to help defray the costs of technology products and services we use with the System.
Annual Minimum Purchase Requirement of EC-64	Year 2 – 24 cases Year 3 – 42 cases Year 4 – 63 cases Year 5 and thereafter – 80 cases	As ordered	Beginning in the second year of operation of your Franchised Business, you must purchase the minimum amount of EC-64 each year from our affiliate, Smart Supply Co. Each case of EC-64 contains 12 bottles. A case currently costs \$225.
Collection Costs and Expenses	Amount incurred	Upon demand	You must pay our collection costs and expenses, which include collection agency fees, costs incurred in creating reports demonstrating Gross Sales, attorney's fees, and related expenses we incur in enforcing the terms of the Franchise Agreement.
Convention Registration Fees	We currently do not charge this fee but may charge up to \$1,000 per attendee	As incurred	Your Managing Owner must attend our annual convention, regional meetings and conferences.
Customer Complaints	Our reasonable costs and expenses	Upon demand	You must reimburse us for our reasonable costs and expenses incurred in resolving customer complaints.
Early Termination Damages	The average monthly Royalty Fees and Brand Fund contributions, that you owed for the 12 month period prior to termination multiplied by the lesser of 36 months or the number of months (including any partial month) remaining in the term of the Franchise Agreement.	Within 30 days following the termination	Payable if you default on your obligations and we terminate the Franchise Agreement prior to the expiration of the initial term of the Franchise Agreement.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Enforcement Expenses	Reasonable cost of our attorneys' fees and expenses	Upon demand	Due only if we obtain injunctive or other relief for the enforcement of any term of the Franchise Agreement.
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we incur any expense, including attorneys' fees and other costs, or are held liable for claims arising out of the operation of your Franchised Business.
Interest	1.5% per month or the maximum rate permitted by applicable law, whichever is less.	With payment of overdue amount	We calculate interest from the date the payment was due until paid in full.
Quality Assurance Programs	Our out of pocket costs	As incurred	You must pay costs that we incur to third parties to carry out quality assurance programs at your Franchised Business.
Reimbursement for Examination or Audit	Actual cost of audit, including travel, lodging, wages and reasonable accounting and legal costs	Upon demand	Payable only if an examination or audit reveals an understatement of the Gross Sales of your Franchised Business of 2% or more. This is in addition to applicable interest and late fees.
Successor (Renewal) Franchise Fee	\$5,000	Upon execution of a successor franchise agreement	If you choose to and are approved to continue operating your Franchised Business for a successor term, then you must sign our then-current form of successor franchise agreement.
Supplier Evaluation	Reasonable costs of evaluation	Upon demand	Payable whether or not we approve the supplier. Please see item 8 for additional details.
Taxes	Amount imposed on us	Upon demand	You must reimburse us for any taxes, fees or assessments imposed on us for acting as a franchisor or licensing the Marks to you.
Training – Additional Programs	Currently, \$500 a day for on-going or remedial training (if we conduct the training in your Territory, you also must pay our travel, meals and lodging expenses)	Upon demand	We have the right to charge you reasonable training fees for additional training programs that we administer during the term of your Franchise Agreement.
Transfer Fee	\$10,000	Upon demand	Due only if you propose to sell or transfer your Franchised Business, the Franchise Agreement or an ownership interest. See Note 4.

Type of Fee (Note 1)	Amount	Date Due	Remarks
Transfer - Lead Referral Fee	\$10,000	Upon demand	Payable if you transfer your Franchised Business to a buyer who was already listed in our sales database at the time that you and the buyer began discussing the sale. This fee is intended to partially reimburse us for our costs in developing leads who then purchase a franchise from existing franchisees. This fee is payable in addition to the Transfer Fee.

Notes to Item 6 table:

- 1 **Fees.** Unless otherwise noted, all of the fees or charges described in this Item derive from the Franchise Agreement. Unless otherwise noted, all fees are non-refundable, payable to us, and uniformly imposed on all franchisees receiving this offering.
- 2 **Gross Sales.** “Gross Sales” means the aggregate amount of all revenues generated from the sale of all services, products, merchandise and all other income of every kind related to the Franchised Business, whether for cash or credit (and regardless of collection in the case of credit). You may not reduce the Gross Sales of the Franchised Business for discounts applied to employees, family members or other businesses owned or controlled by you. The following items are not included in Gross Sales: (a) the amount of any refunds, credits, allowances and adjustments issued in good faith; (b) the amount of any sales taxes or other taxes collected from customers and paid directly to the appropriate taxing authority; (c) proceeds from insurance with respect to property damage or liability; (d) proceeds from any civil forfeiture, condemnation or seizure by governmental entities; and (e) uncollectable amounts subject to the limitation that uncollectable amounts cannot exceed one half of one percent (0.5%) of Gross Sales for any fiscal year and subsequent collections of charged off amounts must be included in Gross Sales when collected. We reserve the right to modify our policies consistent with industry practices regarding revenue recognition, revenue reporting, and the inclusion in or exclusion of certain revenue from “Gross Sales” as circumstances, business practices, and technology change.
- 3 **Account.** You must designate an account at a commercial bank of your choice (the “Account”) for the payment of amounts due to us and/or our affiliates, including but not limited to Royalty Fees, Brand Fund contributions, and Technology Fees. You must furnish us and the bank with authorizations as necessary to permit us to make withdrawals from the Account by electronic funds transfer. On the fifth day of each month, we will transfer from the Account an amount equal to the Royalty Fees, Brand Fund contributions, and Technology Fees due from you based on the Gross Sales of your Franchised Business for the preceding month, as well as any other fees due to us and/or our affiliates. You must maintain sufficient funds in the Account at all times to cover all Royalty Fees, Brand Fund contributions, and Technology Fees and other fees payable to us or our affiliates. If funds in the Account are insufficient to cover the amounts payable at the time we make our electronic funds transfer, then the amount of the shortfall will be deemed overdue.
- 4 **Transfer Fee.** We will not charge a transfer fee if you transfer the agreement to a corporation or limited liability wholly owned by you or if the transfer is the result of your or your owner’s death, incapacity or bankruptcy.

ITEM 7
ESTIMATED INITIAL INVESTMENT

**YOUR ESTIMATED INITIAL INVESTMENT
FOR A SMART CARPET CLEANING BUSINESS UNDER A FRANCHISE AGREEMENT**

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment Is Made
	Low	High			
Initial Franchise Fee (Note 1)	\$34,000	\$34,000	Lump sum	At signing of Franchise Agreement	Franchisor
Pre-Opening Travel (Note 2)	\$2,000	\$5,000	As incurred	Before opening	Airlines, hotels and restaurants
Leasehold Improvements, Fixtures (Note 3)	\$2,000	\$10,000	Lump sum	Before opening	Contractors and Suppliers
Office Equipment (Note 4)	\$1,500	\$6,000	As incurred	Before opening	Suppliers
Vehicle (Note 5)	\$25,000	\$45,000	As incurred	Before opening	Suppliers
Vehicle Graphic Wrap and Custom Interior Racks (Note 6)	\$9,000	\$9,500	As incurred	Before opening	Suppliers
Training Package (Note 7)	\$16,000	\$18,500	As incurred	When place order before opening	Smart Supply Co.
Van Stock Package (Note 7)	\$2,500	\$3,000	As incurred	When place order before opening	Smart Supply Co.
Commercial Pad Washer (Note 8)	\$1,800	\$20,000	As incurred	Before opening	Suppliers
Liquid Inventory – First Year (Note 9)	\$9,400	\$11,000	As incurred	Before opening	Smart Supply Co.
Shop Equipment and Supplies (Note 10)	\$2,000	\$2,500	As incurred	Before opening	Suppliers
Business Permits and Licenses (Note 11)	\$25	\$25	Lump sum	Before opening	Government Agencies
Rent (Note 12)	\$600	\$3,000	As arranged	Before opening	Landlord
Employee Uniforms (Note 13)	\$600	\$700	As incurred	Before opening	Suppliers
Professional Fees (Note 14)	\$1,000	\$2,000	As incurred	Before opening	Suppliers
Additional Funds – 3 Months (Note 15)	\$4,000	\$8,000	As incurred	After opening	Various
Total (Note 16)	\$111,425	\$178,225			

Notes:

1 Initial Franchise Fee. See Item 5 for additional information regarding the Initial Franchise Fee.

- 2 **Pre-Opening Travel.** We do not charge tuition or a materials charge for our initial training program; however, you are responsible for all other costs associated with you and your personnel's attendance at the training program. Your costs will vary, depending upon your point of origin, method of travel, class of accommodation, and living expenses (food, transportation, etc.). These estimates cover the cost of any transportation, accommodation and meals for two people incurred during the training period for up to five days. The training program will be held at our headquarters in Windsor, Colorado or another location of our choosing. The lower estimate in this range covers moderately priced travel expenses, while the higher estimate covers higher priced flights, rental car, and accommodations. Your choice of mode of travel and level of accommodations will determine your total cost for attending our initial training program and may be higher than what is estimated here.
- 3 **Leasehold Improvements, Fixtures.** This estimate is for the cost of outfitting your Shop including making provision for utilities including gas, electrical, heating, water, and a utility sink.
- 4 **Office Equipment.** This estimate is for the cost of your office furniture and fixtures such as a desk, chairs, file cabinets, and task lighting, computers, printer, phones and other communications devices that we require for the operation of your Franchised Business office space and high speed internet access. The size and configuration of your office space may affect your actual costs.
- 5 **Vehicle.** We require that you purchase one-vehicle that meets our standards within 30 days of signing the Franchise Agreement. You may have the option to finance the vehicle purchase through an automobile dealer.
- 6 **Vehicle Graphic Wrap and Custom Interior Racks.** These figures include the cost of wrapping one vehicle and outfitting the vehicle with interior racks.
- 7 **Training Package and Van Stock Package.** These estimates include the cost of the Training Package and Van Stock Package as described in Item 5. You must purchase this equipment within 30 days of signing the Franchise Agreement.
- 8 **Commercial Pad Washer.** This estimate is for the purchase, delivery, and installation costs for two residential high-capacity front load washing machines on the low-end range, or one Dexter T- 950 O Series commercial pad washer, or one Dexter 60lb. Softmount commercial pad washer on the high-end range.
- 9 **Liquid Inventory – First Year.** This estimate is for the cost of liquid cleaning supplies that you will need during your first year of operation. This does not include shipping and handling.
- 10 **Shop Equipment and Supplies.** This estimate is for the cost of four storage shelves, a workbench, a rolling card, a pallet truck, an air compressor, two 50' 12/3 extension cords, and laundry chemicals.
- 11 **Business Permits and Licenses.** You are responsible for obtaining and maintaining all required permits and licenses necessary to operate your Franchised Business. This estimate is based on our affiliate's experience in opening and operating a Smart Carpet Cleaning Business in the Windsor, Colorado area. You will need to check with your advisors and state and local government authorities regarding these requirements.
- 12 **Rent.** This range of expense applies if you rent your Shop facility and assumes a prepayment of three months of rent, based upon a Shop with between 600 and 1,500 rentable square feet and parking for up to two vehicles with easy ingress and egress to main roads. Since real estate values vary dramatically from region to region, we cannot accurately estimate your rent. These estimated rental amounts are indicative of a location in the greater Windsor, Colorado area with an annual leasing rate of between \$1.00 to \$2.00 per rentable square foot. Pre-paid rent is generally non-refundable, while security or other deposits may be refundable either in full, or in part, depending upon the lease contract.

- 13 Employee Uniforms.** You must provide your employees with branded uniforms from our approved vendors. The lower estimate is for the cost of providing the required uniforms to two employees and the higher estimate is for four employees.
- 14 Professional Fees.** These fees are representative of the costs to engage legal and accounting professionals for the start-up of a Smart Carpet Cleaning Business. We also require that you conduct background checks on your employees who will be providing carpet cleaning services. The estimated rates in this chart are based upon professional fees typically charged in the Windsor, Colorado area.
- 15 Additional Funds – 3 Months.** This is an estimate of the additional funds you may need to operate your business during the first three months after you open your Franchised Business. The estimate does not include payroll expenses but does include Royalty Fees, Brand Fund contributions, Technology Fees, professional and accounting fees, insurance, rent, repairs and maintenance, bank charges (including interest), miscellaneous supplies and equipment, initial staff recruiting and training expenses, state tax and license fees, deposits and prepaid expenses (if applicable) and other unforeseen items.
- 16 Your Estimated Initial Investment.** This estimate is based upon our affiliate's experience in opening and operating one Smart Carpet Cleaning Business in the Windsor, Colorado. Costs paid to us are not refundable. Whether any costs paid to third parties are refundable will vary based on the practice in the area where your Franchised Business is located. We do not provide any direct or indirect financing for the initial franchise fee or other fees and costs paid to us or to third parties. If you meet the credit requirements determined by third party vendors, then you may be able to obtain financing. We do not determine the terms and conditions of any financing and we do not provide any guarantees for any financing provided to you by third parties.

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

System Standards

In order to protect our reputation and goodwill and to maintain high standards of operation under the System, you must operate your Franchised Business in strict conformance with the methods, standards, and specifications we prescribe from time to time in the Manual or otherwise in writing. The System standards may relate to any aspect of the operation of a Smart Carpet Cleaning Business.

Required Purchases of Goods and Services

You must offer for sale all services and products that we designate as required items. You will at all times maintain a complete inventory of approved items and supplies necessary for operating your Franchised Business and providing services to customers including EC-64. You may also offer for sale any optional services and products that we have approved in writing for sale in a Smart Carpet Cleaning Business; however, you may not offer or sell any unapproved services or products without our prior written consent. You must provide services only using the methods that we have approved. You must discontinue selling or offering for sale any services or products which we, in our sole discretion, disapprove of in writing at any time. Within 30 days after receipt of written notice from us, you must begin selling any newly approved services and products and cease selling any services and products that are no longer approved.

You must purchase your products, supplies, equipment, furnishings, promotional items, information technology services, credit card processing services, and other products and services that you purchase for operation of or sale in your Franchised Business in accordance with our specifications and quality standards and, if applicable, only from suppliers we have approved ("Authorized Suppliers"), which may include us or our affiliates. We and our affiliates may earn a profit on products and services sold to you and other Smart Carpet Cleaning franchisees, and may receive rebates or other consideration from unaffiliated

suppliers with respect to their sales of services or products to you or other Smart Carpet Cleaning franchisees, whether or not the product or service is presently mentioned in this Item.

We may establish strategic alliances with third parties for purposes including marketing, brand promotion, and supply chain matters. You must modify your business practices to ensure that such practices do not conflict with such strategic alliances, which we may update from time to time. We do not have any obligation to consult with you before entering into new or modified strategic alliances and we are under no obligation to include you in such strategic alliances. You may not enter into any strategic alliances, corporate alliances, marketing or promotions contracts, product supply, or product sourcing arrangements, which directly impact your Franchised Business or the System, without our prior written approval.

If we require you to use an Authorized Supplier for a particular item, but you wish to purchase the item from a supplier that we have not approved, then you may submit a written request for approval of the alternate supplier, unless it is an item for which we have designated a particular vendor as the source for the particular product or service. We will provide our standards and specifications to you or to the proposed supplier, subject to the supplier's execution of a confidentiality agreement in a form acceptable to us. We have the right to inspect the proposed supplier's facilities and to require delivery of product samples either to us or to an independent laboratory designated by us for testing. You may be required to pay a fee, which will not exceed our reasonable costs incurred in evaluating the supplier, regardless of whether or not we approve the supplier. You may not purchase, sell, or offer for sale any services or products of the proposed supplier until you receive our written approval of the proposed supplier. We generally will give you written notice of approval or disapproval of the proposed supplier within 30 days after receiving your request and completion of evaluation and testing, if required. You may not sell or offer for sale any services or products of the proposed supplier until you receive our written approval.

We have the right to revoke approval of particular suppliers if we determine that the suppliers or their services or products no longer meet our standards. Upon receipt of written notice of revocation, you must stop buying from the disapproved supplier. In addition, if we revoke our approval of the products because they fail to meet our standards, then you may be required not to use your remaining inventory of those products.

Our affiliate, Smart Supply Co. is the exclusive Authorized Supplier of EC-64 and much of the supplies, inventory, products and equipment used by Smart Carpet Cleaning Businesses for carpet cleaning other than office equipment, front load washers, vacuums and vehicles. Beginning in the second year of operation of your Franchised Business, you must purchase the following minimum amount of EC-64: Year 2: 24 cases; Year 3: 42 cases; Year 4: 63 cases; Year 5 and thereafter: 80 cases. Currently, each case costs \$225.

None of our owners, officers, or directors own an interest in any suppliers of services or products to our franchisees other than our affiliates, Smart Supply Co. and EC-64 LLC, which are owned by our Chief Executive Officer. In our last fiscal year, we and our affiliates did not receive any rebates or payments from Authorized Suppliers on account of franchisee purchases or leases of required and approved items from those suppliers.

There currently are no purchasing or distribution cooperatives. We and our affiliates may negotiate purchase arrangements with suppliers (including price terms) for the benefit of our franchisees and our affiliates for the items and services that you may obtain only from Authorized Suppliers. In doing so, we and our affiliates seek to promote the overall interests of the System. We do not provide material benefits to you (for example, renewal or granting additional franchises) based on your purchase of particular services or products or use of particular suppliers.

We estimate that you will purchase 80% to 90% of the products and services that are necessary to establish your Franchised Business and 50% to 75% of the products and services that are necessary to operate your Franchised Business from approved suppliers that are subject to our standards and specifications.

Insurance

Before undertaking any activities in connection with your franchise, you must obtain and maintain insurance which you determine is necessary or appropriate for liabilities caused by or occurring in connection with the development or operation of your Franchised Business, which shall include, at a minimum, insurance policies of the kinds, and in the amounts, required by your Franchise Agreement and the Manual. This insurance must protect you, us, and our affiliates, officers, directors, shareholders and employees against all claims for personal injury, death, or property damage, or any loss, liability or expense arising from the operation of your Franchised Business.

All insurance policies must be written by a carrier with an industry rating of A by A.M. Best and Company, Inc. (or any similar criteria that we periodically specify). Liability policies must name us and our affiliates as an additional insured and must provide us with 30 days' prior written notice of termination, expiration or cancellation of the policy. You must provide us with certificates of insurance evidencing the proper types and at least the minimum amounts of coverage that we require.

Currently we require the following insurance:

TYPE OF INSURANCE POLICY	COVERAGE REQUIREMENTS
Commercial General Liability	\$1,000,000 per occurrence limit
Automobile Liability	\$1,000,000 per occurrence limit
Workers' Compensation	Required by statute or rule of the state where your Franchised Business is located, provided that you may not elect any option that may be available under state law to exclude or exempt any owner from workers' compensation
Property	\$100,000 All "risk" property damage insurance for the full replacement cost of property that you own, rent, borrow or lease for the conduct or operation of the Franchised Business
Medical Expenses	\$10,000
Personal and Advertising Injury	\$1,000,000 per occurrence \$2,000,000 general aggregate
Products Liability	\$2,000,000 general aggregate
Umbrella Liability	\$1,000,000 per occurrence \$1,000,000 general aggregate

We have the right to increase the amounts of coverage required and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, new risks, and changes in the law or standards of liability, higher damage awards or other relevant changes in circumstances.

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. If you fail to maintain the required coverage, then we have the right (but no obligation) to obtain insurance on your behalf. If we do so, then you must immediately reimburse us for the cost of insurance, plus a reasonable fee for our services.

ITEM 9
FRANCHISEE'S OBLIGATIONS

Obligation	Section in Franchise Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	3.1	5, 7, 8, 11 and 12
b. Pre-opening purchases/ leases	3.1, 3.2, 8.2 and 11	5, 7, 8 and 12
c. Site development and other pre-opening requirements	3	5, 6, 7, 8, 11 and 12
d. Initial and ongoing training	6	6, 7 and 11
e. Opening	3.2	11
f. Fees	3.2, 4, 6, 8.4, 8.8, 8.10, 8.12, 8.14, 10, 11.3.1, 12.3, 12.5, 13.7, 17.3, 17.6, 18.3, 20, 21.2, 26.5	5, 6 and 7
g. Compliance with standards and policies/Operating Manual	7, 8 and 10	11 and 14
h. Trademarks and proprietary information	13	13 and 14
i. Restrictions on products/ services offered	8.2 - 8.6	8 and 16
j. Warranty and customer service requirements	8.3 and 8.12	Not Applicable
k. Territorial development and sales quotas	2.1	1 and 12
l. Ongoing product/service purchases	8.2	6, 7 and 8
m. Maintenance, appearance and remodeling requirements	8.1, 8.7 and 9.2	11
n. Insurance	11	7 and 8
o. Advertising	10	6 and 11
p. Indemnification	21.2	Not Applicable
q. Owner's participation/ management/staffing	6, 8.13,14 and Exhibit B	11 and 15
r. Records and reports	12	6
s. Inspections and audits	6.4.3, 8.1, 8.4, 8.8, 8.15, 12.3, and 19.5	6 and 11
t. Transfer	16, 17	17
u. Renewal	18	17

Obligation	Section in Franchise Agreement	Disclosure Document Item
v. Post-termination obligations	20	17
w. Non-competition covenants	15	17
x. Dispute resolution	26	17
y. Other – Personal Guarantee	Exhibit C	15

ITEM 10
FINANCING

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

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

Except as listed below, Smart Franchise LLC is not required to provide you with any assistance.

Our Obligations Prior to Opening. Before your Franchised Business opens, we will:

1. Provide written approval of the location of your Shop and administrative office. (*Franchise Agreement, Section 3.1*)
2. Provide specifications for equipment, vehicles, and vehicle wraps. (*Franchise Agreement, Section 5.1*)
3. Provide the Manual on loan for the term of the Agreement. (*Franchise Agreement, Sections 5.2 and 7*) The table of contents for the Manual appears in Exhibit E of this disclosure document. As of the issuance date of this disclosure document, the Manual contains 110 pages.
4. Provide an initial training program for your Managing Owner and General Manager. See below under “Training.” (*Franchise Agreement, Sections 5.3 and 6*)
5. Provide pre-opening and opening supervision and assistance, as we deem advisable. (*Franchise Agreement, Section 5.4*)
6. Provide a marketing plan template for you to use to create a marketing plan to launch your Franchised Business, as described below under “Advertising.” (*Franchise Agreement, Section 10.2*)

Continuing Obligations. After your Franchised Business opens, we will:

1. Establish and administer System Account arrangements (see Item 16). (*Franchise Agreement, Section 2.3*)
2. Administer the Brand Fund and make available to you for purchase any advertising and promotional materials that we may produce independently from the Brand Fund that you can adapt for your business (*Franchise Agreement, Sections 5.6 and 10.14*)
3. Provide advice and written materials concerning techniques of managing and operating a Smart Carpet Cleaning Business. (*Franchise Agreement, Section 5.7*)

4. We will provide a list of Authorized Suppliers and review suppliers that you nominate. (*Franchise Agreement, Sections 5.5 and 8.4*)
5. We will provide you from time to time, at our sole discretion, advice and written materials concerning techniques of managing and operating a Smart Carpet Cleaning Business. (*Franchise Agreement, Section 5.7*)

Site Selection

You must secure warehouse space or a storage location to store vehicles, equipment, and supplies for the Franchised Business. You may perform the administrative functions of your Franchised Business from the Shop or from a residential address if permitted by local zoning laws. You may not operate the Franchised Business from a retail space or provide service to customers from your Shop or administrative office. The Shop must be located within the Territory. You must obtain our prior written approval of the location of your Shop and your administrative office at least five days prior to commencing use of such location(s).

It typically takes 60 to 120 days from the signing of the Franchise Agreement to build out the shop, secure and equip your van, hire and train your staff and open your Franchised Business by actively providing carpet cleaning services to customers. The actual time will vary depending on the availability of financing and the time you need to locate and setup your Shop and administrative office. Neither of these factors is within our control. You must purchase your van(s) and Cleaning Equipment within 30 days of signing the Franchise Agreement.

Technology System Requirements

We have the right to specify or require that certain brands, types, makes, and/or models of communications, computer and technology systems, and hardware to be used by, between, or among Smart Carpet Cleaning Businesses, and in accordance with our standards, including without limitation: an office computer; smartphones for each vehicle; computer related equipment; communications devices; high speed internet service; printers; telephone, voice messaging, retrieval, and transmission systems; audio/visual equipment; and software systems that we specify in writing from time to time. You must maintain an electronic connection between your systems and our systems and provide us with all user IDs and passwords necessary for us to independently access files and other information stored on your systems; must use the systems in accordance with all policies and operational procedures we issue from time to time; must transmit data to us at the times we specify; must maintain your systems in good working order at all times; must promptly install upgrades, additions, changes, modifications, substitutions and/or replacements of hardware, software, data connectivity, electrical power, and other computer-related facilities as we direct, which upgrades shall not be required more often than once a year; and must ensure that your employees are adequately trained in the use of such systems and our related policies and procedures. You must not install any software on your systems that we have not authorized, including virus software and firewalls. You must bear all costs of installation, operation, maintenance and upgrade of your systems. We reserve the right to require you to engage us or a hardware maintenance and/or help desk support provider approved by us to maintain your systems.

You must purchase a computer and smartphone dedicated to your Franchised Business that are current within the prior five years and that meet our standards, including the ability to use the software required for your Franchised Business. We estimate the cost of the computer will range between \$500 and \$4,000 and the smartphone will range from \$200 to \$1,200 per device. You must use our proprietary Smart Carpet Salesforce software system and QuickBooks for your accounting needs. Your Technology Fees cover up to three user account licenses for the Smart Carpet Salesforce software and licenses for up to ten customer community licenses. If additional user licenses are needed, there will be an additional charge.

We may designate additional software programs in the future that you must use in connection with your computer systems. You must use all such software, including any updates, supplements, modifications, or enhancements that we require. We and our suppliers may charge a reasonable software

license fee for any software that you are required to use. You will also need a printer, fax, scanner system, high speed Internet connectivity, and voice-over-internet protocol. There are no contractual limitations on our ability to access the information and data contained in your systems. We and our affiliates have the right to retain the information and to use it internally without restriction. You will be assigned a Smart Carpet Cleaning email account that you must use for all business communications. You must promptly update and upgrade your computer hardware and software systems as we require. We currently require you to replace your computer once every five years and your iPhones every three years. There is no contractual limitation on the cost of this obligation.

You must participate in any electronic or mobile payment systems that we specify in the Manual including any gift cards, online or mobile coupons or credits, online or mobile ordering systems, and other electronic money programs as we may prescribe from time to time. Participation includes both issuing program benefits or credits and accepting them for payment by customers and may require you to purchase additional equipment. You must honor all credit, charge, courtesy or cash cards or other credit devices that we specify. You must 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.

Training

Smart Carpet Cleaning Initial Training Program

Before you open your Franchised Business, your Managing Owner (and General Manager if your Managing Owner will not serve as your General Manager) must attend and successfully complete our initial training program to our satisfaction. You may send a total of two people to the training program; however, if you request and we authorize you to send additional people to the training program, you must pay us a training fee in the amount of \$1,000 for each additional trainee. Your van(s) must be set up and ready to operate prior to attending the initial training program. The training program will include up to ten days of online, classroom and on-the-job training at our home office and/or another training site that we designate. We may increase or reduce the required training based on our assessment of an individual's prior experience. The training program includes a train-the-trainer program and materials that you can use in training your employees and replacement personnel. All participants in our training program must sign our Training Participation and Nondisclosure Agreement attached as Exhibit F prior to participating in any aspect of the training program.

INITIAL TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Field Training Handbook	10	0	Remote - Zoom
Operations Manual Sections C, D, E	10	0	Remote - Zoom
Smart Software	8	0	Remote - Zoom
Business Goals, Industry Sector Mapping	4	0	Remote - Zoom
Smart Quality Controls	2	0	Remote - Zoom
Field Work - Assistant Position	0	4	Smart Franchise Support Center in Windsor, Colorado
Carpet Cleaning – Initial Machine Training and Safety	3	5	Smart Franchise Support Center in Windsor, Colorado
Carpet Cleaning – Residential and Commercial	0	16	On-Site
Smart Pricing Matrix & Philosophy	2	0	Remote - Zoom
Smart Commercial Sales Process	4	7	Remote - Zoom

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Van and Equipment Maintenance	4	0	Smart Franchise Support Center in Windsor, Colorado
Total Hours	47	32	

We will schedule initial training as needed throughout the year. Our training program is conducted by Robert Valois, our President and Chief Executive Officer (who has more than 29 years of experience in carpet cleaning and more than 17 years of training experience) and Gabby Lorenzen, our Director of Operations (who has one year of training experience). We will use the Manual as our instructional materials for the training program.

Additional Training

Your employees that we reasonably designate must attend and complete, to our satisfaction, any additional training programs that we reasonably require from time to time. We may require you to pay reasonable training fees for these programs (plus travel, meals and lodging expenses for our representatives, if we conduct the training in your Territory).

Your Managing Owner and General Manager attend our periodic conventions, regional meetings and conferences. You are responsible for the registration fee for these meetings (which will not exceed \$1,000 per attendee) and the costs of travel and accommodations.

We will advise and consult with you periodically in connection with the operation of your Franchised Business. We may provide these services through visits by our representatives to your Territory, the distribution of printed, filmed or electronic information, meetings or seminars, telephone communications, e-mail communications or other communications. We will periodically inspect your Franchised Business operations to provide assistance and ensure compliance with the System. At your request, we may provide special assistance for you for which you will be required to pay our per diem training fees and charges that we may establish from time to time.

Except for the classroom and the on-the-job training portions of the Smart Carpet Cleaning training program, we have the right to provide training programs in person, by video, via the internet, or by other means, as we determine. All training that we conduct in person will be held at a location that we designate. You are responsible for all expenses of your trainees, including the costs of transportation, lodging, meals, and wages.

Advertising

Brand Fund

We may establish a Brand Fund for the enhancement, promotion and protection of the System and the Marks, and for the development of advertising, marketing, and public relations programs and materials as we deem appropriate. Among the programs, concepts, and expenditures for which we may utilize the Brand Fund monies are: (1) creative development and production of print ads, commercials, radio spots, point of purchase materials, direct mail pieces, door hangers, free standing inserts, brochures, logo wear, labeling, video, audio, and written materials and electronic media, and other advertising and promotional materials; (2) media placement and buying, including all associated expenses and fees; (3) administering regional and multi-regional marketing and advertising programs; (4) market research and customer satisfaction surveys, including the use of secret shoppers; (5) the creative development of, and actual production associated with, premium items, giveaways, promotions, sweepstakes, contests, public relation events, and charitable or nonprofit events; (6) creative development of signage, posters, and individual Smart Carpet Cleaning Business décor items including wall graphics; (7) recognition and awards events

and programs including periodic national and regional conventions and meetings; (8) design, establishment, and maintenance of websites, extranets, intranets, search rankings, social media profiles, mobile application and other online and mobile presence; (9) retention and payment of personalities engaged as spokespersons, celebrity endorsements, advertising and promotional agencies, endorsement contracts, and other outside advisors including retainer and management fees; (10) sponsorship of sporting, charitable, or similar events; (11) review of locally produced marketing materials; (12) list acquisition and development; (13) association dues; (14) affinity program development; (15) development of third party facilities for the customization of local advertising; and (16) public relations and community involvement activities and programs. We have the sole right to direct all advertising, media placement, marketing and public relations programs and activities financed by the Brand Fund, with final discretion over the strategic direction, creative concepts, materials and endorsements used and the geographic, market and media placement and allocation.

You must participate in all advertising, marketing, promotional, research and public relations programs instituted by the Brand Fund. You must contribute the greater of \$250 or 2% of your Gross Sales monthly to the Brand Fund. You will start paying the Brand Fund Contribution on the fifth day of the third month following the opening of the Franchised Business. The Brand Fund Contribution payable each month is based on the Gross Sales from the month ending two months prior to the due date. For example, the Brand Fund Contribution for the first month of Gross Sales is due on the fifth day of the third month of operations. Smart Carpet Cleaning Businesses operated by us and our affiliates also will contribute to the Brand Fund at the lowest rate specified for comparable franchisees. We may sell certain advertising materials, merchandise and premium items to you that are developed by the Brand Fund and the earnings from such sales will be deposited in the Brand Fund. The Brand Fund also may be used to pay the reasonable salaries and expenses of our and our affiliates' employees who work on advertising, marketing, public relations materials, programs, activities or promotions prepared, planned or undertaken on behalf of the Brand Fund and professional fees and administrative costs and overhead that we or our affiliates incur in activities reasonably related to the administration and activities of the Brand Fund (including accounting fees, legal fees, and interest on monies borrowed by the Brand Fund). We will not use the Brand Fund for anything whose sole purpose is the marketing of franchises, however, the System website, public relations activities, community involvement activities and other activities supported by the Brand Fund may contain information about franchising opportunities. We may seek the advice of Smart Carpet Cleaning franchisees by formal or informal means with respect to the creative concepts and media used for programs financed by the Brand Fund.

We will prepare an annual, unaudited statement of Brand Fund collections and expenses within 120 days after our fiscal year end and will provide a copy of the statement to all franchisees. If there are unspent funds in the Brand Fund at the end of any given fiscal year, those unspent funds will carry over to the next fiscal year. We retain the final authority on all programs financed by the Brand Fund. We have the right to change or dissolve the Brand Fund at any time. If we disband the Brand Fund, then we will spend all monies in the fund for advertising and/or promotional purposes or distribute all unspent monies to contributors in proportion to their respective Brand Fund contributions during the preceding 12 month period. As of the date of this disclosure document, we do not have an established Brand Fund, and therefore, we do not have any Brand Fund expenditures to report for our last fiscal year.

The Brand Fund (including any earnings on unspent funds) will be used to maximize general public recognition, acceptance, and patronage of Smart Carpet Cleaning Businesses. We are not obligated to make Brand Fund expenditures for you which 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. The Brand Fund is not a trust and we have no fiduciary obligation in collecting payments, maintaining the bank account, bookkeeping, or disbursement of monies from the Brand Fund.

Local Marketing

We will provide a marketing plan template for you to use to create a marketing plan to launch your Franchised Business including recommended trade groups and networking organizations to join, a warm market checklist, market demographics for your Territory, commercial market breakdown, documentation

of our demonstration process with comprehensive review of all tracking fields in our approved software, and financial goals for the first year of operation with a breakdown of how to get there. You must submit your marketing plan to us for our review and approval at least 45 days prior to implementation. You may not begin implementing your marketing plan without our prior written approval.

You shall only use such advertising, identification and promotional materials and programs (including, but not limited to, logos, printed and broadcast advertisements, stationery, business cards, press releases, signs, displays, fliers, newspaper inserts, promotional mailings and promotional literature, on-site demonstrations, one-on-one contact with potential customers, Internet sites and other uses of the Internet) which have been furnished by us or approved in advance by us. All advertising materials that you produce must bear the Marks in the form, color, location and manner that we prescribe, must be in the type of media and format that we approve, must be conducted in a dignified manner, and must conform to our standards and requirements. You must submit written samples of all proposed advertising and promotional plans and materials to us for our approval at least ten business days before their intended use, unless the plans and materials were prepared by us or have been approved by us within the last 12 months. Proposed advertising plans or materials will be deemed to have been rejected if we have not approved them within ten business days after receipt. We reserve the right to require you to discontinue the use of any advertising or marketing material that we previously approved upon notice.

Electronic Marketing and Electronic Communications

We will host and maintain an independent webpage for your Franchised Business at an Internet address that we specify. We will provide and maintain this webpage using a standard template. You will use an e-mail address that we assign to you for official Smart Carpet Cleaning business if we assign such an address to you (or to one or more of your employees), and you must use that e-mail address (and pay all fees associated with maintaining additional e-mail addresses if you request and we assign more than one e-mail address to you) in the manner and for the purposes that we reasonably require in the Manual or otherwise in writing. Unless we have agreed to it in writing, you may not use, register, maintain, or sponsor any URL, social networking platform, blog, messaging system, email account, user name, text address, mobile application, or other electronic, mobile or internet presence that uses or displays any of the Marks (or any derivative thereof) or that promotes any services or products of your Franchised Business. The use of any electronic medium constitutes advertising and promotion subject to our approval as described above. You may not transmit or cause any other party to transmit advertisements or solicitations by broadcast media, telephone, e-mail, text message, instant message, social network, VoIP, streaming media, or other electronic media without first obtaining our written consent as to: (1) the content of the advertisements or solicitations; and (2) the type of media intended to be used. All telephone answering messages, email auto-signatures, and other identifiers of your Franchised Business must be in the form we prescribe. If we approve the use of an electronic medium, then our approval will be conditioned on your compliance with any standards and procedures we issue with respect to that type of electronic medium, including the use of any disclaimers, warnings, and other statements that we may prescribe.

Pricing Activities

You have the right to set the prices for products and services that you will offer to customers. To the extent permitted by applicable law, we have the right to establish maximum and/or minimum prices that you may charge for all products and services that you sell.

ITEM 12 TERRITORY

Franchise Agreement

Under the Franchise Agreement, we will grant you the right to operate continuously your Franchised Business from your Shop and an administrative office location that we have approved. You may not relocate your Shop or administrative office without our prior written approval.

Your Franchise Agreement will identify the Territory for your Franchised Business, which will typically include zip codes with a population ranging between 175,000 and 200,000 people. However, we may use other territory designations in areas that are densely or sparsely populated. If the United States Postal Service alters any zip codes in your Territory, the geographic area of your Territory will be modified to stay with the original zip codes allocated in your Franchise Agreement. In this event, we may modify your Territory in our sole discretion to try to maintain the same geographic coverage as identified in your original Territory.

You do not receive the right under the Franchise Agreement to develop or operate more than one Smart Carpet Cleaning Business. If you comply with the Franchise Agreement, then during the term of the Franchise Agreement, we and our affiliates will not operate, or license others to operate, another Smart Carpet Cleaning Business within your Territory.

We reserve the right to: (a) distribute products identified by the Marks in the Territory through any method or channel of distribution other than the operation of a Smart Carpet Cleaning Business including through e-commerce, wholesale, mail order and catalog; (b) operate, and license others to operate, during the term of this Agreement, businesses identified in whole or in part by the Marks that provide carpet cleaning services outside of the Territory; (c) operate, and license others to operate, after this Agreement terminates or expires, businesses identified in whole or in part by the Marks that provide carpet cleaning services at any location, including within the Territory; (d) operate, and license others to operate, at any location, including locations inside the Territory, during or after the term of this Agreement, any type of business that is not identified in whole or in part by the Marks and that does not offer carpet cleaning services; (e) develop and own other franchise systems for the same or similar services using trade names and trademarks other than the Marks; (f) purchase, be purchased by, merge or combine with, businesses that directly compete with Smart Carpet Cleaning Businesses; and (g) provide carpet cleaning services, or permit a third party to provide carpet cleaning services, to System Account (as defined below) customers in the Territory if you elect not to service their accounts. We and our affiliates do not currently operate or franchise or have any plans to operate or franchise a business under a different trademark that will sell goods or services similar to those offered by Smart Carpet Cleaning Businesses. You will not receive an exclusive territory under the Franchise Agreement. You may face competition from other franchisees, from outlets that we own, from other channels of distribution or competitive brands that we control.

During the term of your Franchise Agreement, you will have a right of first refusal to acquire franchises for open adjacent territories to your Territory. We will notify you if we or our affiliates plan to open, or if we receive an inquiry from a prospective franchisee to open, a Smart Carpet Cleaning business in an open adjacent territory. You will have 15 days to exercise your right of first refusal and submit a franchise application to acquire a franchise for the open adjacent territory. Within an additional 30 days or such longer period as required by applicable law (1) you must demonstrate that you meet our then-current financial requirements to acquire the new franchise; (2) you and we shall enter into our then-current form of franchise agreement for the new franchise; and (3) you shall pay us the initial franchise fee required under the franchise agreement for the new franchise. If you do not exercise your right of first refusal, the right of first refusal shall terminate, and we or our prospective franchisee may develop a new Smart Carpet Cleaning business in the open adjacent territory.

You may advertise your Franchised Business and solicit customers outside your Territory only in an open adjacent territory not assigned to a Smart Carpet Cleaning Business, provided that should we later assign that territory to a Smart Carpet Cleaning Business, you agree to stop marketing in that territory,

transfer that customer to the new Smart Carpet Cleaning Business at the expiration of their contract with you unless the customer makes a request to continue your contract, and provide us with all customer information that you acquire relating to that territory.

We have and will continue to develop relationships with customers with whom we have national or regional account arrangements (“System Accounts”). You may be required to sign a System Accounts Program Participation Agreement to be listed as a participating Smart Carpet Cleaning Business with respect to a System Account. If you elect not to service a System Account in your Territory, then we or another System franchisee may perform the service for the System Account. Following the first year of operation of your Franchised Business, if you fail to service a System Account in your Territory, we may place you in default of the Franchise Agreement. If you fail to cure the default and begin servicing System Accounts in your Territory, then we may develop or license a third party to develop a Smart Carpet Cleaning Business within your Territory to service the System Accounts in your Territory and we will not offer you the opportunity to service any additional System Accounts for the remainder of the term of the Franchise Agreement.

Advertising and promotional materials created, placed, and/or distributed by us, other franchisees operating under the System, or other entities authorized by us, may appear in media distributed in, or may be directed to prospective customers located within, the Territory, including on the System website or any related online site. We are not required to compensate you for marketing, soliciting, or accepting orders within your Territory.

ITEM 13
TRADEMARKS

We grant you a non-exclusive license to use the Marks during the term of the Franchise Agreement. We may also authorize you to use other current or future Marks to operate your Franchised Business. By Marks, we mean trade names, trademarks, service marks and logos we use to identify Smart Carpet Cleaning Businesses and the products sold in them. We have registered the following Mark with the United States Patent and Trademark Office (“USPTO”) on the Principal Register and plan to file, when due, all required declarations of use and renewal application.

Mark	Registration No.	Registration Date
SMART	3268262	July 24, 2007
	6683494	March 29, 2022
	6683493	March 29, 2022

There are no currently effective determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court involving the principal mark, nor any pending

infringement, opposition, or cancellation proceedings or material litigation involving the Marks. There are no agreements that limit our rights to use or license the use of the Marks.

We do not have actual knowledge of either superior prior rights or infringing uses that could materially affect your use of the Marks. However, you should be aware that there are various unrelated third parties located in certain states that appear to be using the “SMART” name and mark in connection with carpet cleaning services. We have not conducted any investigation into the duration, nature or geographic scope of these uses. Among the apparent uses are the following: Smart Carpet Cleaning in Atlanta, Georgia, Smart Carpet and Flooring Manasquan, New Jersey, Smart Carpet Cleaning in Euless, Texas, Smart Dry Carpet Cleaning in Lakeville, Minnesota, Smart Carpet Cleaning in Dallas, Texas, Smart Care Carpet in Oakton, Virginia, Smart Carpet and Tile in South Florida, and Smart Carpet Cleaning & Restoration in Federal Way, Washington.

You must notify us of any unauthorized use of the Marks. You must also notify us of any challenge to the validity of, or the right to use, any of the Marks. We have the right to control any administrative proceeding or litigation that involves the Marks. This right includes the right to settle any of those disputes. We may, but are not required to, try to stop other people from using the Marks.

We will defend you against any infringement claims that arise from your use of the Marks at our expense, including the cost of any judgment or settlement, if your use of the Marks complied with the Franchise Agreement, but at your expense if your use of the Marks did not comply with the Franchise Agreement. You must assist us in any action we take to protect the Marks. Unless this action results from your inappropriate use of the Marks, we will reimburse you for your out-of-pocket costs in assisting us.

You must follow our rules when you use the Marks. You may not use any of the Marks as part of your corporate name, Internet domain name, or e-mail address, or with modifying words, designs or symbols without our prior written authorization. You may not use the Marks for the sale of an unauthorized product or service or in any other manner not authorized by the Franchise Agreement.

We can modify the Marks and/or substitute different marks for use in identifying our businesses and the System. You must promptly implement any modification or substitution at your own cost and expense. We will have no obligation or liability to you as a result of the modification or substitution.

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

Patents

No patents are material to the operation of your Franchised Business. If it becomes advisable to us at any time to acquire a patent, then you will be obligated to use the acquired patent as we may require.

Copyrights

We and our affiliates claim copyright protection for the Proprietary Materials, which include, but are not limited to, the Manual, advertisements, promotional materials, labels, posters, coupons, gift certificates and gift cards, customer contracts, vehicle wraps, signs, websites, and facility designs, plans and specifications. Neither we nor our affiliates have registered the copyrights in any of the Proprietary Materials but we are not required to do so. You can use the Proprietary Materials only for the purpose of developing and operating your Franchised Business. You must notify us of any unauthorized use of the Proprietary Materials. You must also notify us of any challenge to the validity of, or the right to use, any of the Proprietary Materials. We have the right to control any administrative proceeding or litigation that involves the Proprietary Materials. This right includes the right to settle any of those disputes.

There are no currently effective determinations of the USPTO, U.S. Copyright Office, or any court concerning any copyright. There are no currently effective agreements under which we derive our rights in the copyrights and that could limit your use of those copyrighted materials. We are not obligated to protect any of the rights that you have to use any copyright or Proprietary Material, nor does the Franchise Agreement impose any other obligation upon us concerning copyrights or Proprietary Materials. We are not aware of any infringements that could materially affect your use of any copyright in any state.

The Manual and Confidential Information

We will provide you with electronic access to the Manual, which contains information and knowledge that is unique, necessary and material to the System. The term “Manual” means our confidential brand standards manual, which is a library of material addressing specific aspects of operating a Smart Carpet Cleaning Business. The term “Manual” also includes all written correspondence, other publications, materials, drawings, memoranda, videos, and electronic media regarding the System that we may provide to you from time to time. The Manual contains detailed standards, specifications, instructions, requirements, forms, reports, methods and procedures for the management and operation of Smart Carpet Cleaning Businesses. The Manual also may relate to the selection, method, purchase, storage, and sale of all services, equipment, and products offered at the Smart Carpet Cleaning Businesses; management and employee training; marketing, advertising and sales promotions; computer systems, vehicles, graphics, signs, employee uniforms; and accounting, bookkeeping, records retention and other business systems, procedures and operations. You must at all times operate your Franchised Business in strict conformity with the Manual; maintain the Manual at your administrative office or Shop; not reproduce the Manual or any part of it; treat the Manual as confidential and proprietary; and disclose the contents of the Manual only to your employees who have signed a confidentiality agreement and who have a demonstrated need to know the information contained in the Manual.

We may periodically revise the contents of the Manual, and you must consult the most current version and comply with each new or changed standard. If a dispute relating to the contents of the Manual develops, then the master copy maintained by us at our principal offices shall control.

Innovations

All products, services, concepts, methods, techniques, and/or new information relevant to your operation of your Franchised Business (together, “Innovations”), whether or not constituting protectable intellectual property, that you or your employees create, or that are created on your behalf, must be promptly disclosed to us. All such Innovations will be deemed to be our sole and exclusive property and works made-for-hire for us. You and each of your owners agree to: (1) sign the assignment and/or other documents we request in order to implement this in order to evidence our ownership; (2) cause your employees and contractors to sign such assignment documents as we may request for this purpose; and (3) assist us in securing intellectual property rights in such Innovations.

Data and Privacy

We claim ownership of all data that you collect from customers, suppliers or others in connection with your Franchised Business including, but not limited to, names, addresses, email addresses, phone numbers, birth dates, demographic data, behavioral data, customer service history, correspondence and other data that you create and/or collect in connection with the System, or in connection with your operation of your Franchised Business. We reserve the right to use or transfer this data as we deem appropriate and to provide the information to our affiliates. Furthermore, we reserve the right to contact customers of your Franchised Business, as well as your employees, suppliers and other service providers, for purposes of quality control, market research and for other business reasons as we deem appropriate. In connection with any use of data in your Franchised Business, you agree to comply with all applicable laws pertaining to the privacy of customer, employee, and transactional information and our standards and policies pertaining to privacy laws.

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

You must designate one of your owners as your Managing Owner who will be the person with whom we communicate and whom will have the authority to bind you with respect to all financial, operational and legal matters related to the Franchised Business and your Franchise Agreement.

You must designate an individual whom we have approved to serve as your General Manager. We must have approved the General Manager and not have later withdrawn that approval. The General Manager must have full control over and devote his or her best efforts to supervising the day-to-day operation of the Franchised Business. The General Manager shall not, without our prior written approval, engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations under your Franchise Agreement.

If you or your affiliates own or control more than one Smart Carpet Cleaning Business and your Managing Owner requests our consent to devote less than full time to supervising the operation of your Smart Carpet Cleaning Businesses, you must designate and retain an individual that we have approved to serve as your Multi-Unit Manager who must complete our initial training program and devote full time and best efforts to supervising the operation of your Smart Carpet Cleaning Businesses.

Your Managing Owner may also serve as the General Manager of your Franchised Business or the Multi-Unit Manager of all of your Smart Carpet Cleaning Businesses that you operate. Your Managing Owner, General Manager and Multi-Unit Manager must complete our initial training program and any additional training programs that we require to our satisfaction.

Each of your owners and each of their spouses, shall be bound by the confidentiality and non-competition restrictions described in Item 17 and must sign a guarantee assuming and agreeing to discharge all of your obligations to us unless we waive or modify this requirement. We may require your General Manager, Multi-Unit Manager, training program participants, officer and to sign a non-disclosure and/or non-competition agreement.

ITEM 16
RESTRICTIONS ON WHAT FRANCHISEE MAY SELL

Your Franchised Business must offer all services and products that we designate and maintain a complete inventory of approved items and supplies necessary for operating your business. You must offer for sale all services and products that we designate as required items. You may also offer for sale any optional services and products that we designate. You must provide services only using the methods that we have approved. You must sell products only in the weights, sizes, forms, and packaging that we have approved. You must discontinue selling or offering for sale any services or products which we, in our sole discretion, disapprove of in writing at any time. If you would like to use or offer services, products, supplies, and/or equipment that we have not approved, then you must first submit to us a written request for approval and you shall refrain from offering or using these items until you have received our written approval. We have the right to require you to use only certain brands and to prohibit you from using other brands. We may from time to time modify the list of approved brands and you shall not reorder any brand that is no longer approved.

Within 30 days after receipt of written notice from us, you must begin selling any newly approved services and products and cease selling any services and products that are no longer approved. Products and services already scheduled under contract at the time you receive notice of discontinuance may be provided to fulfill the contract unless the disapproved product or service poses a safety or health threat to customers, employees or the public in which case usage shall be stopped immediately. All services and

products authorized for sale shall be offered for sale under the specific name designated by us. If you have a suggestion for a new service or product or for a change to an authorized service or product or you desire to participate in a test market program, then you must provide us written notice prior to implementation, and obtain our prior written consent. You may not add or modify any product or service or participate in a test market program without first having obtained our prior written approval. You must purchase any additional equipment and supplies as we deem reasonably necessary in connection with new services and products. If we require you to begin offering a new service or product which requires the purchase of additional equipment, then we will provide you with a reasonable period of time for the financing and purchase of any such equipment before you must offer such new product or service for sale.

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

The tables list certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this disclosure document.

	Obligation	Section in Franchise Agreement	Summary
a.	Length of the franchise term	1.2	Term expires 10 years from the earlier of (a) the date you open the Smart Carpet Cleaning business or (b) 120 days following the date of the Franchise Agreement.
b.	Renewal or extension of the term	18.1	Provided we are still franchising and you are in substantial compliance with the Franchise Agreement, you have an option to sign a successor franchise agreement for one successor term of ten years.
c.	Requirements for you to renew or extend	18.2–18.3	Timely provide written notice of intent to renew; be in good standing; demonstrate right to remain in possession of Office Location; agree to renovate and modernize your Franchised Business; meet our qualification and training requirements for new franchisees; sign successor franchise agreement and pay successor franchise fee. Successor franchise agreement may contain terms that are materially different from your expiring Franchise Agreement, such as different fee requirements but will not include an initial franchise fee.
d.	Termination by you	Not applicable	Subject to state law, you have no right to terminate either the Franchise Agreement.
e.	Termination by us without cause	Not applicable	We have no right to terminate the Franchise Agreement without cause.
f.	Termination by us with cause	19	We may terminate the Franchise Agreement upon default.

	Obligation	Section in Franchise Agreement	Summary
g.	"Cause" defined – curable defaults	19.3 - 19.5	You have ten days to cure non-payment of fees or non-submission of reports; 24 hours to cure unsafe products/practices; and 30 days to cure other defaults, except for those described in h. below.
h.	"Cause" defined – non-curable defaults	19.1–19.2, 19.5	Non-curable defaults: insolvency, bankruptcy; failure to complete training; failure to timely identify a site and open your Smart Carpet Cleaning business; abandonment; default on material indebtedness; commission of felony; threat to public safety; unapproved transfers; operating Competing Business (see q. below); disclosure of trade secrets; filing false reports; violation of federal, state, or local laws or regulations; other governmental action against you; repeated defaults even if cured; default of any other agreements between you or your affiliates and us or our affiliates; understatement of concealment of revenue; and others.
i.	Your obligations on termination or non-renewal	20	Obligations include ceasing to operate the Smart Carpet Cleaning business, including the use of the System and Marks; providing customer contracts to us to continue servicing the customer relationships; de-identifying the Office Location; paying amounts due; ceasing using the Marks; transferring customer data to us; transferring phone numbers; returning our materials (also see o. and r. below); and paying our early termination damages (as described in Item 6).
j.	Assignment of contracts by us	16	There are no limits on our right to assign the Franchise Agreement.
k.	"Transfer" by you – definition	17.1 and 17.4	Restrictions apply to transfer of any direct or indirect interest in the Agreement, in your business entity (if you are a corporation or other entity), or in substantially all of the assets of your Franchised Business.
l.	Our approval of transfer by you	17.1, 17.4	You may not make any transfers without our prior written consent.
m.	Conditions for our approval of transfer	17.3	Transferee qualified; accrued fees paid; no default exists; sales price reasonable; transferee signs new agreement; training arranged and transfer training fee paid; transferee agrees to upgrade and remodel the Office Location; you sign release and transfer

	Obligation	Section in Franchise Agreement	Summary
			fee is paid; all monetary obligations are satisfied; no default exists;
n.	Our right of first refusal to acquire your business	17.2	We have the right to match any offer.
o.	Our option to purchase your business	20.2	Upon expiration or termination of the Franchise Agreement, we can take assignment of your lease and purchase your business assets.
p.	Your death or disability	17.5	Executor, personal representative, or trustee must assign your interest to approved party within three months.
q.	Non-competition covenants during the franchise term	15.2, 15.4	No diverting customers to or otherwise engaging in "Competing Business" (meaning any business which offers carpet cleaning services) during the term of the Franchise Agreement with no other temporal or geographical limitation.
r.	Non-competition covenants after the franchise is terminated or expires	15.2	No involvement with Competing Business for two years post-termination or expiration (1) within your Territory plus the area formed by extending the boundary of your Territory by ten miles in any direction; or (2) within the territory assigned to any then-existing Smart Carpet Cleaning business, plus the area formed by extending the boundaries of that territory ten miles in all directions.
s.	Modification of the agreement	25	No modification generally without signed agreement, but we may modify the System and the Manual.
t.	Integration/merger clause	25	Only the terms of the Franchise Agreement are binding (subject to applicable state law). Any representations or promises outside of the disclosure document or the Franchise Agreement may not be enforceable.
u.	Dispute resolution by arbitration or mediation	26.1	Either party may submit a claim arising out of the Agreement to non-binding mediation; however, the parties will not be required to pursue mediation of any claim as a prerequisite to commencing legal proceedings.
v.	Choice of forum	26.3	Subject to state law, all claims must be filed in the jurisdiction where we have our principal place of business, which is currently Windsor, Colorado.
w.	Choice of law	26.2	Subject to state law, Colorado law applies.

ITEM 18
PUBLIC FIGURES

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

ITEM 19
FINANCIAL PERFORMANCE REPRESENTATIONS

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

1. Primary Territory Results - 2023 Annual Gross Sales and Percentage of Gross Sales by Industry

The table below contains the annual Gross Sales for 2023 of our Affiliate-Owned Business. This business has been in operation since 2005 for services rendered to customers in Weld and Larimer Counties in Colorado, our primary territory with a population of approximately 685,000 people, which is larger than the Territory that our franchisees will operate in, which will range from 175,000 to 200,000 people.

Commercial	\$425,873 (84%)
Residential	\$82,950 (16%)
Total	\$508,823

2. 2023 Primary and Extended Territory Results

The tables below contain the 2023 performance of our Affiliate-Owned Business for services rendered in our primary territory of Weld and Larimer Counties in Colorado in addition to services performed in the geographical area that surrounds our primary territory. Used below, the term Account refers to a customer’s entire profile and all the Work Orders that customer has ordered. The term Work Order refers to individual cleaning jobs performed for the respective Accounts.

Value of Residential Accounts	
Average Annual Account Revenue	\$307
Range of Annual Account Revenue	\$40-\$1,094
Median Annual Account Revenue	\$266

Value of Property Management Company Accounts	
Average Annual Account Revenue	\$13,443
Range of Annual Account Revenue	\$1,415-\$58,233

Value of Property Management Company Accounts	
Median Annual Account Revenue	\$7,838
Average Number of Work Orders Performed	39

Value of Big Box* Accounts	
Average Annual Account Revenue	\$3,391
Range of Annual Account Revenue	\$280-\$14,654
Median Annual Account Revenue	\$2,511

*A Big Box is a commercial property with a substantial amount of public area with carpeting. The data reflected here is from properties in the hospitality and senior living industries.

Average Annual Revenue Per Account with Interval Clean Contracts*	
Number of Accounts with Interval Clean Contracts	74
Average Gross Revenue Per Account	\$3,205
Range of Revenue Per Account	\$280-\$15,389
Median Revenue Per Account	\$2,480

*An Interval Clean Contract is a contract to provide carpet cleaning services on specified interval dates throughout the year. Our revenue from Interval Clean Contracts in fiscal year 2023 was \$245,085, or 38% of our total revenue in fiscal year 2023.

Demo Conversions*	
Number of Demos Performed	62
Demos Converted to Billable Business	27 (45%)
Demos Converted to Interval Clean Contracts	19 (31%)

*A Demo Conversion is business obtained by conducting a free carpet cleaning demonstration for prospective clientele.

NOTES

1. The term "Gross Sales" in this financial performance representation means the aggregate amount of all revenues generated from the sale of all services, products, merchandise and all other income of every kind related the business, whether for cash or credit (and regardless of collection in the case of credit). The following items are not included in Gross Sales: (a) the amount of any refunds, credits, allowances and adjustments; (b) the amount of any sales taxes or other taxes collected from customers and paid directly to the appropriate taxing authority; (c) proceeds from insurance with respect to property damage or liability; (d) proceeds from any civil forfeiture, condemnation or seizure by governmental entities; and (e) uncollectable amounts subject to the limitation that uncollectable amounts cannot exceed one half of one percent (0.5%) of Gross Sales for any fiscal year and subsequent collections of charged off amounts must be included in Gross Sales when collected.

2. We have not audited the information presented above, nor have we independently verified this information. Written substantiation of the data used in preparing this financial performance representation will be made available to you upon reasonable request.

3. Our Affiliate-Owned Business offers services that are substantially similar to the services that you will offer for sale in your Franchised Business.

4. One business has earned this much. Your individual results may differ. There is no assurance that you will earn as much.

Other than the preceding financial performance representation, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Robert Valois, our President and Chief Executive Officer, 609 Gyrfalcon Court, Suite A, Windsor, CO 80550 and 970-590-8777 the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary for 2021 to 2023

Outlet Type	Year	Outlets at Start of Year	Outlets at End of Year	Net Change
Franchised	2021	0	0	0
	2022	0	0	0
	2023	0	1	+1
Affiliate-Owned	2021	1	1	0
	2022	1	1	0
	2023	1	1	0
Total Outlets	2021	1	1	0
	2022	1	1	0
	2023	1	2	+1

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
for 2021 to 2023

State	Year	Number of Transfers
All	2021	0
	2022	0
	2023	0
Total	2021	0
	2022	0
	2023	0

Table No. 3
Status of Franchised Outlets
for 2021 to 2023

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
OH	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
Total	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1

Table No. 4
Status of Affiliate-Owned Outlets
for 2021 to 2023

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of Year
CO	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
Total	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1

Table No. 5
Projected Openings For Next Fiscal Year

State	Franchise Agreements Signed but Outlets Not Yet Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Affiliate-Owned Outlets in the Next Fiscal Year
All	0	0	0
Total	0	0	0

Notes to Item 20:

1. All details are as of our fiscal year ends, which fall on December 31 each year.
2. States not listed had no activity during the relevant time frame.
3. Exhibit G contains our list of current franchisees and franchisees who had an outlet terminated, transferred cancelled, not renewed, cease to operate or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during the most recently completed fiscal year, or who have not communicated with us within 10 weeks of the issuance date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

4. No franchisees have signed a confidentiality clause in a Franchise Agreement, settlement or other contract within the last three years that would restrict their ability to speak openly about their experience with us.
5. We do not have a franchise advisory council at this time and no independent franchisee organization has asked to be included in this disclosure document.

ITEM 21
FINANCIAL STATEMENTS

Exhibit H contains audited financial statements as of December 31, 2023, December 31, 2022 and December 31, 2021. Our fiscal year end is December 31.

ITEM 22
CONTRACTS

Attached as Exhibits to this disclosure document are the following contracts:

- | | |
|-----------|---|
| Exhibit C | Confidentiality Agreement |
| Exhibit D | Franchise Agreement and Guarantee |
| Exhibit F | Training Participation and Non-Disclosure Agreement |

ITEM 23
RECEIPTS

The last two pages of this disclosure document (Exhibit K) are identical pages acknowledging receipt of this entire document (including the exhibits). Please sign and return to us one copy of the receipt page and please keep the other copy together with this disclosure document.

EXHIBIT A

ADDITIONAL STATE REQUIRED DISCLOSURES

ADDITIONAL FDD DISCLOSURES REQUIRED BY THE STATE OF MINNESOTA

1. **Notice of Termination.** The following statement is added to Item 17:

With respect to licenses governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, subdivisions 3, 4, and 5 which requires, 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 agreements.

2. **Choice of Forum and Law.** The following statement is added to the cover page and Item 17:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of 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.

3. **General Release.** The following statement is added to Item 17:

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 Statute §§ 80C.01 - 80C.22.

4. **Waiver of Right to Jury Trial or Termination Penalties:** The following statement is added to Item 17:

Minnesota Rule 2860.4400J, among other things, prohibits us from requiring you to waive your rights to a jury trial or to consent to liquidated damages, termination penalties, or judgment notes; provided, that this part will not bar an exclusive arbitration clause.

5. **Contracts.** The following statements are added to Item 22:

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

ADDITIONAL FDD DISCLOSURE REQUIRED BY THE STATE OF RHODE ISLAND

Item 17, Additional Disclosure. The following statement is added to Item 17:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

This additional disclosure to the disclosure document shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Rhode Island Franchise Investment Law are met independently without reference to this additional disclosure to the disclosure document.

EXHIBIT B

LIST OF 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 of Financial Protection and Innovation 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 NYS Department of Law Investor Protection Bureau 28 Liberty St. 21st Fl New York, NY 10005 (212) 416-8222</p>
<p>HAWAII Commissioner of Securities Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p>	<p>NORTH DAKOTA North Dakota Securities Department State Capitol Department 414 600 East Boulevard Avenue, Fourteenth 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. There may be states in addition to those listed below in which we have appointed an agent for service of process. There may also be additional agents in some of the states listed.

<p>CALIFORNIA Commissioner of Financial Protection and Innovation 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 One Commerce Plaza 99 Washington Avenue Albany, NY 12231 (518) 473-2492</p>
<p>HAWAII Commissioner of Securities Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p>	<p>NORTH DAKOTA North Dakota Securities Commissioner State Capitol Department 414 600 East Boulevard Avenue, Fourteenth 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 C
CONFIDENTIALITY AGREEMENT

CONFIDENTIALITY AGREEMENT

THIS CONFIDENTIALITY AGREEMENT (this “Agreement”) is made as of the date set forth on the last page of this Agreement by the individual(s) identified on the signature page to this Agreement (individually and collectively, “Potential Franchisee”) in favor of and for the benefit of Smart Franchise, LLC (“Franchisor”).

RECITALS

Potential Franchisee has expressed interest in purchasing a franchise from Franchisor to develop one or more Smart Carpet Cleaning Business(es) (“Franchise”). In order to evaluate the possibility of purchasing a Franchise from Franchisor, Potential Franchisee desires to receive from Franchisor certain confidential business information. Potential Franchisee recognizes the importance of maintaining the confidentiality of this information.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Prospective Franchisee agrees as follows:

1. **Confidential Information**

A. Definition of Confidential Information. As used in this Agreement, the term “Confidential Information” means all information about Franchisor or its affairs that Franchisor or its representatives furnish to Potential Franchisee. Confidential Information includes, but is not limited to, Franchisor’s confidential and proprietary Operations Manual, or any portion of its contents, trade-secrets, know-how, methodologies, processes, formulas, specifications, Smart System information, operating procedures and standards, technical information, statistics, software, hardware, materials, plans, designs, schematics, reports, studies, notes, analyses, summaries, business, market and development plans and programs, financial information and projections, information regarding the retail and commercial operations of Franchisor and its affiliates, and all information that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; or (3) is designated by Franchisor as confidential or proprietary. Confidential Information may be in written form or obtained orally. As used in this Agreement, the term “representatives” of a party shall include the directors, officers, employees, shareholders or other securities holders, partners, members, trustees, agents, lenders, advisors, subsidiaries and other foreign and domestic affiliates and/or related entities of a party.

B. Treatment of Confidential Information. Potential Franchisee acknowledges, understands and agrees that the Confidential Information: (1) is the exclusive and confidential property of Franchisor or its affiliates and incorporates trade secrets and copyrights owned by them; (2) gives Franchisor and its affiliates some competitive business advantage or the opportunity of obtaining such an advantage, the disclosure of which could be detrimental to the interests of Franchisor and its affiliates; and (3) is not generally known by non-Franchisor personnel. Potential Franchisee shall at all times treat the Confidential Information in accordance with this Agreement.

C. No Warranty. Although Potential Franchisee understands that Franchisor has endeavored to include in the Confidential Information material known to it which it believes to be relevant for Potential Franchisee’s purposes, Potential Franchisee further understands that Franchisor does not make any representation or warranty as to the accuracy or completeness of the Confidential Information. Potential Franchisee further acknowledges that Franchisor has not and will not make representations or warranties as to the potential revenue of a Smart Carpet Cleaning Business, and no information supplied by Franchisor

shall be construed as a prediction of future sales. Potential Franchisee agrees that neither Franchisor nor its representatives shall have any liability to Potential Franchisee, Potential Franchisee's representatives or any other person resulting from the use of the Confidential Information.

D. No License. This Agreement entitles Potential Franchisee to use the Confidential Information solely in connection with Potential Franchisee's exploration of the opportunity to purchase a Franchise. No license, express or implied, in the Confidential Information is granted to Potential Franchisee other than to use the Confidential Information in the manner and to the extent authorized by this Agreement. Except for the obligations of Potential Franchisee set forth in this Agreement, neither Potential Franchisee nor Franchisor shall be under any obligation to enter into any additional agreements and/or contractual obligations with the other of any nature whatsoever as a result of this Agreement, including, without limitation, with respect to the possible sale of a Franchise.

2. Covenants of Potential Franchisee.

As a consequence of Potential Franchisee's acquisition or anticipated acquisition of Confidential Information, Potential Franchisee will occupy a position of trust and confidence with respect to Franchisor's affairs and business. In view of the foregoing, Potential Franchisee agrees that it is reasonable and necessary that Potential Franchisee agree, while this Agreement is in effect, to the following:

A. No Disclosure. Potential Franchisee shall use the Confidential Information solely for purposes of evaluating whether or not Potential Franchisee will purchase a Franchise. Potential Franchisee shall not disclose the Confidential Information to any person or entity other than Potential Franchisee's attorney, accountant or other representatives as necessary to evaluate the opportunity provided by Franchisor and agrees to protect the Confidential Information against unauthorized disclosure using the same degree of care, but no less than a reasonable degree of care, as Potential Franchisee uses to protect Potential Franchisee's confidential information. Potential Franchisee represents that it has its own procedures in place to assure that its representatives are aware of their obligations to retain in confidence any Confidential Information they receive. Without in any way limiting the generality of Potential Franchisee's obligations under this Agreement, Potential Franchisee acknowledges and agrees that in no event will Potential Franchisee disclose any of the Confidential Information to any of Franchisor's competitors.

B. No Use, Copying or Transfer. Potential Franchisee shall not use, copy or transfer Confidential Information in any way and shall protect the Confidential Information against unauthorized use, copying or transfer using the same degree of care, but no less than a reasonable degree of care, as Potential Franchisee uses to protect Potential Franchisee's confidential information. Potential Franchisee further agrees not to remove, overprint, or deface any notice of copyright, trademark, logo, or other notices of ownership from any Confidential Information.

C. Applicability. These covenants shall apply to all Confidential Information disclosed to Potential Franchisee by Franchisor prior to the date of this Agreement.

D. Return and/or Destruction of Confidential Information. If, at any time, Franchisor determines that it does not wish for Potential Franchisee to purchase a Franchise or Potential Franchisee determines that it does not wish to purchase a Franchise, or if Franchisor requests, at any time and for any reason, that Potential Franchisee do so, Potential Franchisee agrees to: **(1)** immediately cease to use the Confidential Information; **(2)** immediately return, or destroy the Confidential Information and all copies thereof (whether or not such copies were authorized) and cause any third party to whom disclosure was made to do the same; and **(3)** at the request of Franchisor, certify in writing that Potential Franchisee and all others to whom Potential Franchisee has provided such Confidential Information, have complied with subsections (1) and (2) above.

3. **Waiver.** Potential Franchisee acknowledges that no waiver by Franchisor of any breach by Potential Franchisee of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of the same or any other provision of this Agreement. No such waiver shall be effective unless in writing and then only to the extent expressly set forth in writing.

4. **Enforcement.**

A. **Governing Law.** This Agreement is governed by and will be construed exclusively in accordance with the laws of the State of Colorado (without regard to Colorado conflicts of law principles).

B. **Choice of Forum.** All disputes arising under this Agreement will be heard only in the federal or state courts in the state in which Franchisor has its principal place of business at the time any proceeding relating to such matter is filed. Potential Franchisee consents to venue in the county where the principal place of business of Franchisor is then located, and irrevocably and unconditionally waive any rights they may have to assert jurisdiction or venue in any other court, administrative forum, or other adjudicative body.

C. **Injunctive Relief.** Potential Franchisee understands that any violation of this Agreement will cause Franchisor immediate and irreparable harm which money damages cannot adequately remedy. Therefore, Potential Franchisee agrees that, in the event of a breach or threatened breach of any of the terms of this Agreement by Potential Franchisee, Franchisor shall be entitled to injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance without showing or proving actual damages and without posting any bond or security. Any equitable remedies sought by Franchisor shall be in addition to, and not in lieu of, all remedies and rights that Franchisor otherwise may have arising under applicable law or by virtue of any breach of this Agreement.

5. **Miscellaneous.**

A. **Headings.** Section headings in this Agreement are for reference only and shall not be construed as modifying any provisions of this Agreement.

B. **Severability.** If a court of competent jurisdiction deems any provision of this Agreement invalid, unreasonable or unenforceable, then the remaining provisions will not be affected and the invalid provisions may be enforced to the extent deemed reasonable by the courts.

C. **Entire Agreement.** This Agreement is the entire agreement concerning the subject matter and supersedes any prior agreements concerning the subject matter hereof. No amendment or modification of this Agreement shall be valid or binding unless made in a mutually executed writing.

IN WITNESS WHEREOF, Potential Franchisee has executed this Agreement as of the date noted below.

POTENTIAL FRANCHISEE:

Name: _____

Signed: _____

Date: _____

Home Address: _____

Name: _____

Signed: _____

Date: _____

Home Address: _____

EXHIBIT D
FRANCHISE AGREEMENT



FRANCHISE AGREEMENT

FRANCHISEE:

TERRITORY:

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Exhibits

- A - Franchise Information
- B - Ownership Information
- C - Guarantee And Assumption Of Franchisee's Obligations

SMART® CARPET CLEANING

FRANCHISE AGREEMENT

This Smart® Carpet Cleaning Franchise Agreement (“**Agreement**”) is entered into by and between **Smart Franchise LLC**, a Colorado limited liability company (“**we**,” “**us**” or “**Franchisor**”) and the person(s) or entity identified on Exhibit A to this Agreement (“**you**” or “**Franchisee**”) as of the Effective Date (as indicated on the signature page of this Agreement).

BACKGROUND

A. We and our affiliates have developed a proprietary system relating to the establishment and operation of mobile businesses that provide environmentally friendly and low water carpet cleaning services to commercial and residential customers utilizing our proprietary soil transfer technology processes, cleaning solutions, and procedures (the “**System**”).

B. The distinguishing characteristics of the System include our standards, policies and procedures for: our proprietary carpet cleaning solutions, equipment and procedures; vehicles, uniforms and equipment; operations, staffing and employee training; customer service; maintaining quality and consistency of service offering; information technology, customer intake and management solutions, and software systems; sales, advertising, promotion, public relations, and social media; and copyrights and copyrighted materials (collectively, the “**Proprietary Materials**”), all of which we may change, improve, and further develop from time to time.

C. We and our affiliates identify the System and the businesses operating under it (“**Smart Carpet Cleaning Businesses**”) by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including the mark “SMART®” and such other trade names, service marks, and trademarks as we may designate in the future for use in connection with the System (the “**Marks**”).

D. You wish to obtain the right to establish and operate a franchised Smart Carpet Cleaning Business (“**Franchised Business**”) in compliance with the operating standards set forth in our confidential operating manual (“**Manual**”) within a specified geographic area (“**Territory**”).

NOW THEREFORE, in recognition of all of the details noted above, the parties have decided to enter into this Agreement, taking into account all of the promises and commitments that they are each making to one another in this Agreement, and they agree as follows:

1 GRANT AND INITIAL TERM

1.1 Grant. Subject to the terms and conditions of this Agreement, we grant to you the non-exclusive right, and you undertake the obligation, to continuously operate the Franchised Business and a license to use the Marks and the System solely in connection with the Franchised Business (“**Franchise**”). You have no right under this Agreement to use, and you will not use, the System, or the Marks in connection with any other business, activity, or unapproved items or services.

1.2 Initial Term. Unless terminated sooner as provided in this Agreement, the initial term of this Agreement (the “**Initial Term**”) expires ten (10) years following the earlier of: (a) the date that you open the Franchised Business and start offering carpet cleaning services to customers located within the Territory; or (b) one hundred twenty (120) days following the Effective Date. Your rights to seek a successor franchise agreement for an additional term are set forth in Section 18.

1.3 Forms of Agreement. You acknowledge that, over time, we have entered, and will continue to enter, into agreements with other franchisees that may contain provisions, conditions and obligations that differ from those contained in this Agreement. The existence of different forms of agreement and the

fact that we and our affiliates and other franchisees may have different rights and obligations does not affect the duties of the parties to this Agreement to comply with the terms of this Agreement.

1.4 Best Efforts. You agree that you will at all times faithfully, honestly and diligently perform your obligations under this Agreement, that you will continuously exert your good faith and best efforts to promote and enhance the Franchised Business, and that you will not engage in any other business or activity that may conflict with your obligations under this Agreement, except the operation of other Smart Carpet Cleaning Businesses authorized by us.

2 TERRITORIAL RIGHTS

2.1 Territory

2.1.1 Provided you are not in material uncured default of this Agreement and subject to the rights reserved to us in Section 2.2 and Section 2.3, during the term of this Agreement, we and our affiliates will not operate, or license others to operate, another Smart Carpet Cleaning Business within your Territory.

2.1.2 During the term of this Agreement, you will have a right of first refusal to acquire franchises for open adjacent territories to your Territory. We will notify you if we or our affiliates plan to open, or if we receive an inquiry from a prospective franchisee to open, a Smart Carpet Cleaning business in an open adjacent territory. You will have fifteen (15) days to exercise your right of first refusal and submit a franchise application to acquire a franchise for the open adjacent territory. Within an additional thirty (30) days or such longer period as required by applicable law (a) you must demonstrate that you meet our then-current financial requirements to acquire the new franchise; (b) you and we shall enter into our then-current form of franchise agreement for the new franchise; and (c) you shall pay us the initial franchise fee required under the franchise agreement for the new franchise. If you do not exercise your right of first refusal, the right of first refusal shall terminate, and we or our prospective franchisee may develop a new Smart Carpet Cleaning business in the open adjacent territory.

2.1.3 You may advertise your Franchised Business and solicit customers outside your Territory only in an open adjacent territory not assigned to a Smart Carpet Cleaning Business, provided that should we later assign that territory to a Smart Carpet Cleaning Business, you agree to stop marketing in that territory, transfer that customer to the new Smart Carpet Cleaning Business at the expiration of their contract with you unless the customer makes a request to continue your contract, and provide us with all customer information that you acquire relating to that territory.

2.2 Reserved Rights. Notwithstanding the grant of the territorial rights in Section 2.1, we reserve the right to: (a) distribute products identified by the Marks in the Territory through any method or channel of distribution other than the operation of a Smart Carpet Cleaning Business including through e-commerce, wholesale, mail order and catalog; (b) operate, and license others to operate, during the term of this Agreement, businesses identified in whole or in part by the Marks that provide carpet cleaning services outside of the Territory; (c) operate, and license others to operate, after this Agreement terminates or expires, businesses identified in whole or in part by the Marks that provide carpet cleaning services at any location, including within the Territory; (d) operate, and license others to operate, at any location, including locations inside the Territory, during or after the term of this Agreement, any type of business that is not identified in whole or in part by the Marks and that does not offer carpet cleaning services; (e) develop and own other franchise systems for the same or similar services using trade names and trademarks other than the Marks; (f) purchase, be purchased by, merge or combine with, businesses that directly compete with Smart Carpet Cleaning Businesses; and (g) provide carpet cleaning services, or permit a third party to provide carpet cleaning services, to System Account customers in the Territory if you elect not to service their accounts in accordance with Section 2.3 below. You acknowledge that the rights granted under this Agreement are not exclusive and that, except as expressly provided in Section 2.1, you have no exclusive territorial rights or any right to exclude, control or impose conditions on the location or development of Smart Carpet Cleaning Businesses under the Marks, on any sales or distribution of products under the Marks, or on our (and our affiliates') business activities.

2.3 System Accounts. We have and will continue to develop relationships with customers with whom we have national or regional account arrangements (“**System Accounts**”). You acknowledge that our negotiation of System Account arrangements, including rates and services to be performed, enhances the potential value of the System and inures to your benefit, our benefit, and the benefit of other Smart Carpet Cleaning Businesses. Accordingly, we reserve the right to establish and administer System Accounts that may request carpet cleaning services within your Territory. You may be required to sign a System Accounts Program Participation Agreement to be listed as a participating Smart Carpet Cleaning Business with respect to a System Account. If you elect not to service a System Account in your Territory, then we or another System franchisee may perform the service for the System Account. Following the first year of operation of your Franchised Business, if you fail to service a System Account in your Territory, we may place you in default of this Agreement. If you fail to cure the default and begin servicing System Accounts in your Territory, then we may develop or license a third party to develop a Smart Carpet Cleaning Business within your Territory to service the System Accounts in your Territory and we will not offer you the opportunity to service any additional System Accounts for the remainder of the term of this Agreement.

3 OPENING THE FRANCHISED BUSINESS

3.1 Shop and Office Location. You must secure warehouse space or a storage location to store vehicles, equipment, and supplies for the Franchised Business (the “**Shop**”). You may perform the administrative functions of your Franchised Business from the Shop or from a residential address if permitted by local zoning laws. You may not operate the Franchised Business from a retail space or provide service to customers from your Shop or administrative office. The Shop must be located within the Territory. You must obtain our prior written approval of the location of your Shop and your administrative office at least five (5) days prior to commencing use of such location(s). Once each location is secured, you may not relocate the Shop or your administrative office without our prior written approval.

3.2 Opening the Franchised Business. You must open the Franchised Business by actively providing carpet cleaning services to customers located within your Territory no later than one hundred twenty (120) days following the Effective Date (“**Opening Deadline**”), unless we agree otherwise in writing. You shall not open the Franchised Business for business without our express written authorization, which will not be granted unless you have satisfied the following conditions:

3.2.1 You have paid the Initial Franchise Fee (as defined in Section 4.1) and any other amounts then due to us;

3.2.2 You have signed this Agreement and all other agreements as required by us including any required electronic funds transfer documents;

3.2.3 You must not be in material default under this Agreement or any other agreements with us;

3.2.4 You have secured our approval and set up your Shop and your administrative office;

3.2.5 You have obtained, provided copies to us, and maintain all required building, utility, sign, business and other permits and licenses applicable to the Franchised Business;

3.2.6 You have acquired all specified equipment and vehicles for the Franchised Business, including obtaining the wraps and staging for your vehicles;

3.2.7 You have purchased all required technology systems and they are operational;

3.2.8 You have purchased an opening inventory of supplies for the Franchised Business of only authorized and approved products and other materials and supplies;

3.2.9 All required personnel have completed our training program in accordance with the requirements of Section 6; and

3.2.10 You have obtained and provided to us copies of certificates for all insurance policies required by Section 11 or such other evidence of insurance coverage and payment of premiums as we reasonably may request.

4 FEES

4.1 Initial Franchise Fee. In consideration of the Franchise rights granted in this Agreement, you must pay us a non-refundable initial franchise fee in the amount set forth in Exhibit A, which is due and payable when you sign this Agreement (“**Initial Franchise Fee**”). You acknowledge and agree that the Initial Franchise Fee is fully earned by us when paid, and we have no obligation to refund the Initial Franchise Fee in whole or in part for any reason. However, if the Franchised Business is the first Smart Carpet Cleaning Business that you or your affiliates have developed and we terminate this Agreement based on the failure of your Managing Owner (as defined in Section 14.5), or their replacement to attend and successfully complete our initial training program to our satisfaction, then we may, in our sole discretion, refund up to fifty percent (50%) of the Initial Franchise Fee less our reasonable expenses in recruiting you and providing initial support and training services to you. As a condition of any such refund, we may require that you and your owners sign a general release, in the form prescribed by us, of any and all claims against us, our affiliates and our respective past, present and future officers, directors, shareholders and employees.

4.2 Royalty Fee.

4.2.1 Beginning on the third (3rd) month after you commence operation of your Franchised Business, you must pay us on the fifth (5th) day of each month (or such other date as we may designate) a monthly non-refundable royalty fee for the continued use of the Franchise rights in an amount equal to the greater of Three Hundred Dollars (\$300) or six percent (6%) of the Gross Sales of the Franchised Business for the month that ended two (2) months prior to the due date (the “Royalty Fee”)

4.2.2 “Gross Sales” means the aggregate amount of all revenues generated from the sale of all services, products, merchandise and all other income of every kind related to the Franchised Business, whether for cash or credit (and regardless of collection in the case of credit). You may not reduce the Gross Sales of the Franchised Business for discounts applied to employees, family members or other businesses owned or controlled by you. The following items are not included in Gross Sales: (a) the amount of any refunds, credits, allowances and adjustments; (b) the amount of any sales taxes or other taxes collected from customers and paid directly to the appropriate taxing authority; (c) proceeds from insurance with respect to property damage or liability; (d) proceeds from any civil forfeiture, condemnation or seizure by governmental entities; and (e) uncollectable amounts subject to the limitation that uncollectable amounts cannot exceed one half of one percent (0.5%) of Gross Sales for any fiscal year and subsequent collections of charged off amounts must be included in Gross Sales when collected. We reserve the right to modify our policies consistent with industry practices regarding revenue recognition, revenue reporting, and the inclusion in or exclusion of certain revenue from “Gross Sales” as circumstances, business practices, and technology change.

4.3 Brand Fund Contribution. Beginning on the third (3rd) month after you commence operation of your Franchised Business, you must pay us on the fifth (5th) day of each month (or such other date as we may designate) a monthly non-refundable contribution to the Brand Fund in an amount equal to the greater of Two Hundred Fifty Dollars (\$250) or two percent (2%) of the Gross Sales of the Franchised Business for the month that ended two (2) months prior to the due date (the “Brand Fund Contribution”). The “**Brand Fund**” means the common pool of funds for the enhancement, promotion, and protection of the System, to which Smart Carpet Cleaning Businesses contribute and which we administer as provided in Section 10.1.

4.4 Technology Fee. You must pay our then-current technology fee (the “**Technology Fee**”) to help defray the costs of or otherwise provide consideration for those technology products or services we determine to (1) associate or utilize in connection with the System, and (2) use to cover all or certain portion of the corresponding costs. As of the Effective Date, the Technology Fee is Two Hundred Fifty Dollars (\$290) per month and is payable at the same time and in the same manner as the Royalty Fee.

4.5 Other Funds Due. You agree to pay us, within ten (10) days of our written request (which is accompanied by reasonable substantiating material), any monies that we have paid, or that we have become obligated to pay, on your behalf, by consent or otherwise under this Agreement.

4.6 Taxes Imposed on Us. If any taxes, fees or assessments (other than income taxes) are imposed on us by reason of our acting as franchisor or licensing the Marks under this Agreement, then you must reimburse us for the amount of those taxes, fees or assessments within thirty (30) days after receipt of an invoice from us.

4.7 Payment Method. You must designate an account at a commercial bank of your choice (the “**Account**”) for the payment of amounts due to us and/or our affiliates, including Royalty Fees, Brand Fund contributions, and Technology Fees. You must furnish us and the bank with authorizations as necessary to permit us to make withdrawals from the Account by electronic funds transfer. On the fifth (5th) day of each month, or at another point specified by us in the Manual from time to time (“**Due Date**”), we will transfer from the Account an amount equal to the Royalty Fees, Brand Fund contributions, and Technology Fees due from you based on the Gross Sales of the Franchised Business for the preceding month, as well as any other fees due to us and/or our affiliates. You agree to maintain sufficient funds in the Account at all times to cover all Royalty Fees, Brand Fund contributions, and Technology Fees and other fees payable to us or our affiliates. If funds in the Account are insufficient to cover the amounts payable at the time we make our electronic funds transfer, then the amount of the shortfall will be deemed overdue. You must notify us at least ninety (90) days before closing or changing the Account against which such debits are to be made. If such Account is closed or ceases to be used, then you will immediately provide all documents and information necessary to permit us to debit the amounts due from an alternative account. We reserve the right to modify, at our option, the method by which you pay the fees due under this Agreement whenever we deem appropriate, and you must comply with our payment instructions.

4.8 Product Supplies. If we supply products to you, we may require pre-payment or payment on delivery depending on our then-current policies and your payment record with us.

4.9 Interest and Insufficient Funds Charges. If any payment is overdue, then you must 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 one and a half percent (1.5%) per month or the maximum rate permitted by applicable law, whichever is less. The interest charges are in addition to any other remedies we may have.

4.10 Application of Payments. We have the right to apply payments from you in any way we choose, to any amounts you owe us.

4.11 No Offset. You shall not withhold or off-set any portion of any payment due to our alleged non-performance under this Agreement or any other agreement by and between you and us or our respective affiliates.

4.12 Partial Payments. No payment by you or acceptance by us of any monies under this Agreement for a lesser amount than due shall be treated as anything other than a partial payment on account. Your payment of a lesser amount than due with an endorsement, statement or accompanying letter to the effect that payment of the lesser amount constitutes full payment shall be given no effect, and we may accept the partial payment without prejudice to any rights or remedies we may have against you. Acceptance of payments by us other than as set forth in this Agreement shall not constitute a waiver of our right to demand payment in accordance with the requirements of this Agreement or a waiver by us of any other remedies or rights available to us pursuant to this Agreement or under applicable law. Notwithstanding any designation by you, we shall have sole discretion to apply any payments by you to any of your past

due indebtedness for Royalty Fees, Brand Fund contributions, Technology Fees, fees, purchases from us or our affiliates, interest or any other indebtedness. We have the right to accept payment from any other entity as payment by you. Acceptance of that payment by us will not result in that other entity being substituted for you.

4.13 Collection Costs and Expenses. You must pay to us on demand any and all collection costs and expenses (including costs and commissions due a collection agency, costs incurred in creating or replicating reports demonstrating Gross Sales of the Franchised Business, reasonable attorneys' fees, court costs, expert witness fees, discovery costs and reasonable attorneys' fees and costs on appeal, together with interest charges on all of the foregoing) incurred by us in enforcing the terms of this Agreement, including in collecting any monies owed by you to us.

5 DUTIES OF FRANCHISOR

5.1 Specifications. We will provide specifications for your equipment, vehicles, and vehicle wraps.

5.2 Manual. We will loan the Manual to you for the Initial Term of this Agreement.

5.3 Training. We will provide a training program for the persons that we require or permit to attend training under Section 6 of this Agreement.

5.4 Supervision. We will provide pre-opening and opening supervision and assistance as we deem advisable.

5.5 Authorized Suppliers. We will name Authorized Suppliers as we deem appropriate and review suppliers that you nominate, subject to the limitations in Section 8.4. "**Authorized Suppliers**" means those suppliers of products and/or services used in the operation of a Smart Carpet Cleaning Business who has been expressly approved by us in writing. Authorized Suppliers may be, or include, us and/or our affiliates and/or a buying cooperative that we establish.

5.6 Marketing Materials. In addition to the advertising and promotional materials produced and placed by the Brand Fund of behalf of the System, we will make available to you for purchase certain advertising and promotional materials that you can adapt for the Franchised Business.

5.7 Operational Advice. We will provide to you from time to time, at our sole discretion, advice and written materials concerning techniques of managing and operating a Smart Carpet Cleaning Business.

6 TRAINING

6.1 Initial Training Program. Before opening the Franchised Business, your Managing Owner (and General Manager if your Managing Owner will not serve as your General Manager) must attend and successfully complete our initial training program to our satisfaction. Your vehicle(s) and cleaning equipment must be set up and operational prior to attending the initial training program. You may send a total of two (2) people to the training program; however if you request and we authorize you to send additional people to the training program, you must pay us a training fee in the amount of One Thousand Dollars (\$1,000) for each additional trainee. The initial training program will include up to ten (10) days of online, classroom and on-the-job training at our home office and/or another training site that we designate. We may increase or reduce the required training based on our assessment of an individual's prior experience. The initial training program includes a train-the-trainer program and materials that you can use

in training your employees and replacement personnel. We will have the right to require that your personnel sign and deliver to us a confidentiality agreement prior to participating in any aspect of the training program.

6.2 Additional Training. After the Franchised Business opens for business:

6.2.1 Your employees that we reasonably designate must attend and complete, to our satisfaction, any additional training programs that we reasonably require from time to time. We may require you to pay reasonable training fees for these programs (plus travel, meals and lodging expenses for our representatives, if we conduct the training in your Territory).

6.2.2 Your Managing Owner and General Manager must attend our periodic conventions, regional meetings and conferences. You are responsible for the registration fee for these meetings (which will not exceed One Thousand Dollars (\$1,000) per attendee) and the costs of travel and accommodations.

6.2.3 We periodically, as we deem appropriate, will advise and consult with you in connection with the operation of the Franchised Business. We may provide these services through visits by our representatives to your Territory, the distribution of printed, filmed or electronic information, meetings or seminars, telephone communications, e-mail communications or other communications. We will periodically inspect the Franchised Business and its operations to assist your operations and ensure compliance with the System. At your request, we may provide special assistance and/or remedial training at a location in your Territory, our headquarters, or another Smart Carpet Cleaning Business for which you will be required to pay our per diem training fees and charges that we may establish from time to time.

6.3 Delegation. We have the right to delegate the performance of any portion or all of our obligations and duties under this Agreement to our designees, whether affiliates or agents of ours or independent contractors with whom we have contracted.

6.4 Control by Us. Notwithstanding anything to the contrary in this Section 6, you and we recognize and agree that we do not exercise any day-to-day control of the Franchised Business, including the security at the Franchised Business and the hiring and firing of employees.

6.5 Training Methods; Expenses. Except for the classroom and the on-the-job training portions of the Smart Carpet Cleaning training program, we have the right to provide training programs in person, by video, via the internet, or by other means, as we determine. All training that we conduct in person will be held at a location that we designate. You are responsible for all expenses of your trainees, including the costs of transportation, lodging, meals, and wages.

7 **MANUAL**

7.1 Access to the Manual. During the term of this Agreement, we will provide you with electronic access to the Manual, which contains information and knowledge that is unique, necessary and material to the System. The term "**Manual**" means our confidential brand standards manual, which is a library of material addressing specific aspects of operating a Smart Carpet Cleaning Business. The term "**Manual**" also includes all written correspondence, other publications, materials, drawings, memoranda, videos, and electronic media regarding the System that we may provide to you from time to time. The Manual contains detailed standards, specifications, instructions, requirements, forms, reports, methods and procedures for the management and operation of Smart Carpet Cleaning Businesses. The Manual also may relate to the selection, method, purchase, storage, and sale of all services, equipment, and products offered at the Smart Carpet Cleaning Businesses; management and employee training; marketing, advertising and sales promotions; computer systems, vehicles, graphics, signs, employee uniforms; and accounting, bookkeeping, records retention and other business systems, procedures and operations. You agree at all times to operate the Franchised Business in strict conformity with the Manual; to maintain the Manual at your administrative office or Shop; to not reproduce the Manual or any part of it; and to protect the Manual as confidential and proprietary, disclosing the contents of the Manual only to your employees

who have signed a confidentiality agreement and who have a demonstrated need to know the information contained in the Manual.

7.2 Modifications to the Manual. We may supplement or amend the Manual from time to time by letter, electronic mail, bulletin, videos, software or other communications concerning the System to reflect changes in the image, specifications and standards relating to developing, equipping, furnishing and operating a Smart Carpet Cleaning Business. We reserve the right to furnish all or part of the Manual to you in electronic form or online (including by intranet or extranet) and to establish terms of use for electronic access to the Manual. You agree to keep your copy of the Manual current and up-to-date with all additions and deletions provided by or on behalf of us. If a dispute relating to the contents of the Manual develops, then the master copy maintained by us at our principal offices shall control.

7.3 Electronic Access. At our option, we may post some or all of the Manual on a restricted website to which you will have access. If we do so, then you agree to timely monitor and access the website for any updates to the Manual. Prior to accessing our restricted website you and any of your employees must agree to abide by our terms of use, which we may revise from time to time. Any passwords or other digital identifications necessary to access the Manual constitute confidential information owned by us and shall not be shared by employees or with any third party.

8 OPERATION OF THE FRANCHISED BUSINESS

8.1 Compliance with System Standards. In order to protect our reputation and goodwill and to maintain high standards of operation under the System, you must operate the Franchised Business in strict conformance with the methods, standards, and specifications we prescribe from time to time in the Manual or otherwise in writing. You acknowledge that the System standards may relate to any aspect of the operation of the Franchised Business. Any material failure to comply with the mandatory System standards or to pass our periodic quality control inspections will constitute a material breach of this Agreement. You acknowledge that we have the right to vary our standards and specifications, in our reasonable judgment, to accommodate the individual circumstances of different franchisees.

8.2 Approved Services and Products and Minimum Purchase Requirements.

8.2.1 You must at all times maintain a complete inventory of approved products and supplies necessary for operating the Franchised Business and providing services to customers including our proprietary carpet cleaning solutions. You must offer for sale by the Franchised Business all services and products that we designate as required items. You may also offer for sale any optional services and products that we designate. You must provide services only using the methods that we have approved. You must sell products only in the weights, sizes, forms, and packaging that we have approved. You must discontinue selling or offering for sale any services or products which we, in our sole discretion, disapprove in writing at any time. If you would like to use or offer services, products, supplies, and/or equipment that we have not approved, then you agree to first submit to us a written request for approval and you shall refrain from offering or using these items at the Franchised Business until you have received our written approval. We have the right to require you to use only certain brands and to prohibit you from using other brands. We may from time to time modify the list of approved brands and you shall not reorder any brand that is no longer approved.

8.2.2 Within thirty (30) days after receipt of written notice from us, you must begin selling any newly approved services and products and cease selling any services and products that are no longer approved. Products and services already scheduled under contract at the time you receive notice of discontinuance may be provided to fulfill the contract unless the disapproved product or service poses a safety or health threat to customers, employees or the public in which case usage shall be stopped immediately. All services and products authorized for sale at the Franchised Business shall be offered for sale under the specific name designated by us. If you have a suggestion for a new service or product or for a change to an authorized service or product or you desire to participate in a test market program, then you must provide us written notice prior to implementation, and obtain our prior written consent. You may not add or modify any product or service or participate in a test market program without first having obtained

our prior written approval. You must purchase any additional equipment and supplies as we deem reasonably necessary in connection with new services and products. If we require you to begin offering a new service or product which requires the purchase of additional equipment, then we will provide you with a reasonable period of time, as determined in our sole discretion, for the financing and purchase of any such equipment before you must offer such new product or service for sale at the Franchised Business.

8.2.3 Commencing with the second year of operation of the Franchised Business and continuing thereafter during the term of this Agreement, you must purchase a minimum supply of our proprietary carpet cleaning solution, EC-64, from our affiliate and designated supplier as follows:

Year 2: 24 cases

Year 3: 42 cases

Year 4: 63 cases

Year 5 and thereafter: 80 cases

8.3 Sourcing of Services and Products. We have the right to require that all current and future products, supplies, equipment, furnishings, promotional items, information technology services, credit card processing services, and other services and products that you purchase for the operation of, or sale in, the Franchised Business: (a) meet specifications that we establish from time to time, as set forth in the Manual or otherwise in writing; and/or (b) be purchased only from Authorized Suppliers. We and our affiliates may serve as Authorized Suppliers of products and services to the System. To the extent that we establish specifications or name Authorized Suppliers for particular items, we will provide our requirements to you in writing. You must submit orders in accordance with the terms and procedures we specify from time to time. Any conflicting terms and conditions of sale stated in your purchase order will have no effect. In case of shortages, we will have complete discretion to allocate products among Smart Carpet Cleaning Businesses (and, at our option, other channels of distribution). If shortages or an event of Force Majeure prevent us from being able to supply your Franchised Business with its requirements, then you are authorized to purchase products from other sources for use at the Franchised Business until we are again able to meet the requirements of the Franchised Business, provided that the alternative products meet our specifications and that we have given our prior written approval. Although approved by us or supplied by us, we and our affiliates make no warranty and expressly disclaim all warranties, including warranties of merchantability and fitness for any particular purpose, with respect to services, products, equipment (including any required computer and software systems), supplies, fixtures, furnishings or other approved items. In addition, we disclaim any liability arising out of or in connection with the services rendered or products furnished by any Authorized Supplier. Our approval with respect to any services, goods, supplies or any other individual, entity or any item shall not create any liability on us.

8.4 Alternate Supplier Review Process. If we require you to use an Authorized Supplier for a particular item, but you wish to purchase the item from a supplier that we have not approved, then you may submit a written request for approval of the alternate supplier, unless it is an item for which we have designated a particular supplier. We have no obligation to review or approve a greater number of suppliers for an item than the number we deem reasonable, and any proposed supplier relationship must not jeopardize the availability of any special pricing or other benefits offered by our existing suppliers based on system-wide purchases. We will provide our standards and specifications to you or to the proposed supplier, subject to the supplier's execution of a confidentiality agreement in a form acceptable to us. We have the right to inspect the proposed supplier's facilities and to require delivery of product samples either to us or to an independent laboratory designated by us for testing. Upon completion of our analysis, we will notify you in writing of our approval or disapproval of the proposed supplier. You agree to pay a charge not to exceed our reasonable costs incurred in evaluating the supplier, regardless of whether or not we approve the supplier, unless the supplier becomes an Authorized Supplier to the System, in which case we may waive this charge at our sole discretion. You may not purchase, sell, or offer for sale any services or products of the proposed supplier until you receive our prior, written approval of the proposed supplier. We have the right to re-inspect the facilities and products of any Authorized Supplier and to revoke approval

upon the supplier's failure to meet any of our then-current criteria. If you receive a notice of revocation of approval, then you agree to cease purchasing products from the disapproved supplier and, in the case of revocation based on the failure of the supplier's products to meet our standards, you agree to dispose of your remaining inventory of the disapproved supplier's products as we direct.

8.5 Rebates and Strategic Alliances.

8.5.1 We may negotiate purchasing arrangements under which suppliers agree to make services, products, equipment, materials and other goods and services available to Smart Carpet Cleaning Businesses. We may earn money from suppliers based on your purchases in the form of rebates, commissions, or other payments. You acknowledge that these payments compensate us for the cost of negotiating and maintaining the purchasing arrangements with the suppliers and that, subject to applicable laws, we have no obligation to remit the funds (or any portion thereof) to you.

8.5.2 You acknowledge and agree that we may establish strategic alliances with third parties for purposes including marketing, brand promotion, and supply chain matters. You agree to modify your business practices to ensure that such practices do not conflict with such strategic alliances, which we may update from time to time. We do not have any obligation to consult with you before entering into new or modified strategic alliances and we are under no obligation to include you in such strategic alliances. You may not enter into any strategic alliances, corporate alliances, marketing or promotions contracts, product supply, or product sourcing arrangements, which directly impact the Franchised Business or the System, without our prior written approval.

8.6 No Other Sales Channels. You may not engage in any grey marketing activities where you take advantage of purchasing arrangements for Smart Carpet Cleaning Businesses and transfer products to any other business not operating under the System. Unless expressly authorized by us in writing, you may not sell services or products through any channel or facility other than to your Franchised Business customers. If we approve any one or more activities, then we will not be deemed to have given our approval or waived our right to approve or disapprove any other activities that you may later propose. We will consider the factors that we deem appropriate, which may include the period of time you have been operating the Franchised Business, your sales volume, whether you have met certain quality standards and other benchmarks, and other standards that we may determine are applicable.

8.7 Condition of Equipment. You must acquire and use in the operation of your Franchised Business, at your expense, such fixtures, furnishings, equipment, vehicles, and signs as we may reasonably direct from time to time. You must not install or permit to be installed on or about the Shop or use in the operation of the Franchised Business, without our prior written consent, any fixtures, furnishings, equipment, vehicles, signs, or other items not previously approved by us. You must purchase or lease these items only from Authorized Suppliers. You will not make any material alteration to these items without our prior, express, written approval. You agree to identify your vehicles, the Shop, and your administrative office with only the signs, logos and display materials that we have approved. You must ensure that your employees use the vehicles, uniforms, and equipment that we specify when they are providing services to customers of the Franchised Business. You must constantly maintain the Shop, administrative office, and all equipment used in the Franchised Business in first-class condition and repair in accordance with the requirements of the System, including all ongoing necessary refurbishing and repairs. At your own expense, you must make such repairs and replacements as may be required for that purpose. You must maintain the appearance and working condition of all vehicles in your fleet in compliance with our standards, operating, and maintenance requirements, which may include replacing vehicles over a certain age or mileage, with operational flaws, or with certain cosmetic damage. Any vehicle rotated out of your fleet must be fully de-identified in compliance with our standards.

8.8 Inspections and Quality Assurance Programs

8.8.1 You must permit us and our agents to enter the Shop and your administrative office at any time during normal business hours to conduct inspections and to interview employees. We may also interview your customers and conduct inspections of the work performed for customers of the Franchised

Business. You must cooperate with such inspections by rendering such assistance as our representatives may reasonably request. Upon receipt of notice from us or our agents, you must immediately take such steps as may be necessary to correct any deficiencies identified during any such inspection.

8.8.2 You must comply fully with our quality assurance program. The program may include inspections of your business operations, customer satisfaction surveys and brand reputation surveys, and employee satisfaction and perception surveys. You must pay any out-of-pocket costs that we incur to third parties to carry out quality assurance program activities at your Franchised Business. If you fail to achieve the minimum score prescribed in the Manual for a specific quality assurance category, then we may require you and/or your employees to complete additional training in your Territory or a location that we designate, at your expense.

8.9 Compliance with Sound Business Practices. You will at all times operate the Franchised Business diligently and in a manner which is consistent with sound business practices. You will at all times maintain working capital and a net worth which is sufficient, in our opinion, to enable you to fulfill properly all of your responsibilities under this Agreement. You will timely pay all of your debts and obligations incurred in the operation of the Franchised Business as these debts and obligations become due. You will, in all dealings with us, our affiliates, your suppliers and customers, the public, and public officials, adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You will refrain from any business practice which may harm Smart Carpet Cleaning Businesses, the System or the Marks. You will cause your affiliates, employees, owners, representatives and agents to strictly comply with the provisions of this Agreement. You must meet and maintain all industry standards, certifications and affiliations that we require in the Manual.

8.10 Compliance with Laws and Taxes

8.10.1 You must operate the Franchised Business in full compliance with all applicable municipal, county, state and federal laws, rules, regulations and ordinances. You must obtain and maintain all required licenses and permits to operate the Franchised Business and you must require your staff members and security personnel to obtain and maintain all required licenses and certifications for their position. You have sole responsibility for all compliance regardless of any information or advice that we may provide.

8.10.2 You, on behalf of yourself and your owners, agree to comply with and/or to assist us to the fullest extent possible in our efforts to comply with Anti-Terrorism Laws (as defined below). In connection with such compliance, you, on behalf of yourself and your owners, certify, represent, and warrant that none of your respective property or interests are "blocked" under any of the Anti-Terrorism Laws and that neither you nor any of your owners are in violation of any of the Anti-Terrorism Laws. You also agree not to knowingly hire or do business with (or continue to employ or do business with) any party who is blocked under any of the Anti-Terrorism Laws. The term "**Anti-Terrorism Laws**" means Executive Order 13224 issued by the President of the United States, as supplemented, the USA PATRIOT Act, and all other laws and regulations addressing or in any way relating to terrorist acts and/or acts of war.

8.10.3 You represent and agree that, on the date of this Agreement, you and your directors, officers, representatives, shareholders, parent entities, subsidiaries, affiliates, agents, and employees are, and shall remain for the duration of this Agreement, in compliance in all respects with the Foreign Corrupt Practices Act (the "**FCPA**"), as amended, and any applicable foreign counterpart thereto. You will not, for the duration of this Agreement, make any payment, offering, or promise to pay, or authorize the payment of, money or anything of value (a) in order to assist in obtaining or retaining business for or with, or directing business to, any foreign official, foreign political party, party official or candidate for foreign political office, (b) to a foreign official, foreign political party or party official or candidate for foreign political office, or (c) with the intent to induce the recipient to misuse his or her official position to direct business wrongfully to you or to any other person or entity, in violation of the FCPA.

8.10.4 You must promptly pay when due all taxes levied or assessed, including unemployment and sales taxes, and all accounts and other indebtedness incurred 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 in no event will you permit a tax sale or seizure by levy or execution or similar writ or warrant, or attachment by a creditor, to occur against the Franchised Business.

8.10.5 You must meet and maintain the highest safety standards and ratings applicable to the operation of the Franchised Business, and furnish to us, within two (2) days after receipt thereof, a copy of each and every governmental agency report. You must notify us by telephone within twenty-four (24) hours, and confirm in writing within two (2) days, after receiving notice of any investigation or violation concerning any zoning, health, licensing, or safety laws and regulations.

8.10.6 You must immediately notify us in writing of the commencement of any action, suit, or proceeding and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality that may adversely affect the operation or financial condition of the Franchised Business.

8.11 Control During Crisis Situation

8.11.1 If an event occurs in the operation of the Franchised Business that has or reasonably may cause harm or injury to individuals or may damage the Marks, the System or our reputation (collectively "**Crisis Situation**"), you shall: (a) immediately contact appropriate emergency care providers to assist you in curing the harm or injury; and then (b) immediately inform us by telephone of the Crisis Situation. You must refrain from making any internal or external announcements (*i.e.*, no communication with the news media) regarding the Crisis Situation (unless otherwise directed by us or public health officials).

8.11.2 To the extent we deem appropriate, in our sole discretion, we or our designee may exclusively control the manner in which the Crisis Situation is handled by the parties, including conducting all communication with the news media, providing care for injured persons and/or requiring you to temporarily cease operating the Franchised Business. The parties acknowledge that, in directing the management of any Crisis Situation, we or our designee may engage the services of attorneys, experts, doctors, public relations firms and those other professionals as we deem appropriate. You and your employees shall cooperate fully with us or our designee in our efforts and activities in this regard and shall be bound by all further Crisis Situation procedures developed by us from time hereafter. Your indemnification obligation under Section 21.2 shall include all losses and expenses that may result from the exercise by us or our designee of the crisis management rights granted in this Section 8.11.

8.12 Quality and Customer Service Standards

8.12.1 All services and products provided by the Franchised Business will be of high quality and will conform to our quality and customer service System standards. If we determine, in our sole discretion, that any of the items or services you have provided are not in conformance with applicable quality standards, then we may place you in default of this Agreement under Section 19 of this Agreement.

8.12.2 We may implement a communication system for customers to lodge their comments and complaints. If implemented, we will forward such comments and complaints to you for resolution. You must immediately resolve each and every customer complaint regarding the quality of services or products that you supply. When any customer complaint cannot be immediately resolved, you must use reasonable efforts to resolve the customer complaints as soon as practical and shall, whenever feasible, give the customer the benefit of the doubt. If we, in our sole discretion, determine that our intervention is necessary or desirable to protect the System or the goodwill associated with the System, or if we, in our sole discretion, believe that you have failed adequately to address or resolve any customer complaint, then we may, without your consent, resolve any complaint and charge you an amount sufficient to cover our reasonable costs and expenses in resolving the customer complaint, which amount you must pay to us immediately on demand.

8.13 Staffing

8.13.1 You must designate an individual whom we have approved to serve as your General Manager. Your Managing Owner may serve as your General Manager. The General Manager must complete our initial training program and any additional training programs that we require to our satisfaction. We must have approved the General Manager and not have later withdrawn that approval. The General Manager must have full control over and devote his or her best efforts to supervising the day-to-day operation of the Franchised Business. The General Manager shall not, without our prior written approval, engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations under this Agreement. You agree to provide us with an executed copy of any arrangement, agreement or contract, and all amendments thereto, between you and your General Manager related to the operation of the Franchised Business. If the General Manager no longer qualifies as such, you must designate another qualified person to act as the General Manager within thirty (30) days after the date the prior General Manager ceases to be qualified. Your designee to be the replacement General Manager must satisfy the criteria set forth in this Section 8.13.1 and be approved by us.

8.13.2 You agree to maintain a competent, conscientious, well-trained staff in numbers sufficient to promptly service customers in conformance with our System standards. You must conduct a background check on any employee that will be providing carpet cleaning services. You must train your staff and supervise their quality of work to ensure that our System standards and customer service requirements are met and maintained at the highest level. You have sole responsibility for all employment decisions and functions of the Franchised Business, including those related to hiring, firing, training, wage and hour requirements, recordkeeping, supervision, and discipline of employees, despite any information or advice we may provide. You must comply with all state and local laws and regulations regarding your personnel including any required licenses and certifications. You agree to take such steps as are necessary to ensure that your employees develop and maintain excellent customer relations and comply with such dress code, cleanliness, and sanitation standards as we may prescribe in the Manual, or as may be required under applicable law. You agree to buy any and all uniforms for your employees as we may require only from Authorized Suppliers.

8.14 Technology Systems

8.14.1 We have the right to specify and/or require that certain brands, types, makes, and/or models of communications, computer and technology systems, and hardware to be used by, between, or among Smart Carpet Cleaning Businesses, and in accordance with our standards, including: an office computer; smartphones for each vehicle; computer related equipment; communications devices; high speed internet service; printers; telephone, voice messaging, retrieval, and transmission systems; audio/visual equipment; and software systems that we specify in writing from time to time. You must maintain an electronic connection between your systems and our systems and provide us with all user IDs and passwords necessary for us to independently access files and other information stored on your systems; must use the systems in accordance with all policies and operational procedures we issue from time to time; must transmit data to us at the times we specify; must maintain your systems in good working order at all times; must promptly install upgrades, additions, changes, modifications, substitutions and/or replacements of hardware, software, data connectivity, electrical power, and other computer-related facilities as we direct, which upgrades shall not be required more often than once a year; and must ensure that your employees are adequately trained in the use of such systems and our related policies and procedures. You must not install any software to your systems that we have not authorized, including virus software and firewalls. You must bear all costs of installation, operation, maintenance and upgrade of your systems. We reserve the right to require you to engage us or a hardware maintenance and/or help desk support provider approved by us to maintain your systems.

8.14.2 We have the right, but not the obligation, to develop or have developed for us, or to designate, software programs that you must use in connection with your computer systems. You must install all such software, including any updates, supplements, modifications, or enhancements that we

require. We and our suppliers may charge a reasonable software license fee for any software that you are required to use.

8.14.3 You agree to install and use all technology systems and software at your sole expense. You agree to pay us, our affiliates or our vendors any initial and ongoing fees in order to install and continue to use the required software, hardware, and other elements of your technology systems. Each party to this Agreement acknowledges and agrees that changes to technology are dynamic and not predictable within the term of this Agreement. In order to provide for inevitable but unpredictable changes to technological needs and opportunities, you agree that we will have the right to establish, in writing, reasonable new standards for the implementation of technology in the System; and you agree to comply with those reasonable new standards that we establish the same as if we periodically revised this Section 8.14 for that purpose.

8.15 Payment Systems. You must participate in any electronic or mobile payment systems that we specify in the Manual including any gift cards, online or mobile coupons or credits, online or mobile ordering systems, and other electronic money programs as we may prescribe from time to time. Participation includes both issuing program benefits or credits and accepting them for payment by customers, and may require you to purchase additional equipment. You must honor all credit, charge, courtesy or cash cards or other credit devices that we specify. You must 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 or successor organization. Among other things, you agree to implement the security requirements that the PCI Security Standards Council (or its successor) requires of a merchant that accepts payment by credit and/or debit cards. You must timely demonstrate compliance upon our reasonable request, which may include having an independent third party conduct a PCI/DSS audit.

8.16 Pricing Activities. You agree that (subject to applicable law) we may set reasonable restrictions on the maximum and minimum prices you may charge for the services and products offered and sold by the Franchised Business under this Agreement. With respect to the sale of all such services and products, you will have sole discretion as to the prices to be charged to customers; provided, however, that we will have the right to set maximum or minimum prices on such items to promote inter-brand competition. If we impose a maximum price on a particular product or service, then you may charge any price for that product or service, up to and including the maximum price we have set. If we impose a minimum price on a particular product or service, then you may charge any price for that product or service, down to and including the minimum price that we have set.

8.17 Media Inquiries. You must consult with us prior to any discussions with the media and we reserve the right to respond to all media inquiries that you receive.

8.18 Compliance with Lease. If you occupy the Shop or your administrative office under a Lease, then you must comply with all terms of the Lease and all other agreements affecting the operation of the Franchised Business. You must undertake best efforts to maintain a good working relationship with your landlord and must refrain from any activity which may jeopardize your right to remain in possession of, or to renew the Lease for, the Shop and/or your administrative office.

8.19 Franchisee Advisory Council. We reserve the right to create a Franchisee Advisory Council (“FAC”). You will be required to participate in any communication programs developed by the FAC. You must participate, at your sole cost, in the FAC if you or one of your owners or employees is elected or appointed as a committee member. You may be required to pay a fee for, or contribute to, the FAC in an amount determined by the FAC.

9 MODIFICATIONS TO THE SYSTEM

9.1 Ownership of the System. You acknowledge that we own all rights, title and interest in and to the System. You will not acquire any proprietary interest in the System. Your right to use the System is a license, derived solely under this Agreement. Any unauthorized use of the System by you will constitute a material breach of this Agreement.

9.2 System Changes. We, in our sole discretion, shall be entitled from time to time to change or modify the System, including modifications to the Manual, product and service offerings, required equipment, the signage, Shop and administrative office requirements (including the trade dress, décor and color schemes), the presentation of the Marks, the adoption of new administrative forms and methods of reporting and of payment of any monies owed to us (including electronic means of reporting and payment) and the adoption and use of new or modified Marks or Proprietary Materials. You must accept and use any such changes or modifications in the System as if they were a part of the System at the time this Agreement was executed, and you will make such expenditures as the changes or modifications in the System may reasonably require.

9.3 Innovations. All products, services, concepts, methods, techniques, and/or new information relevant to your operation of the Franchised Business (together, “**Innovations**”), whether or not constituting protectable intellectual property, that you or your employees create, or that are created on your behalf, must be promptly disclosed to us in writing. All such Innovations will be deemed to be our sole and exclusive property and works made-for-hire for us. You and each of your owners agree to promptly: (a) sign the assignment and/or other documents we request in order to implement this clause in order to evidence our ownership; (b) cause your employees and contractors to sign such assignment and/or such other documents as we may request for this purpose; and (c) assist us in securing intellectual property rights in such Innovations.

9.4 Variances. We have the right, in our sole discretion, to waive, defer or permit variations from the standards of the System or any applicable agreement for any franchisee or prospective franchisee based on the peculiarities of a particular business, customer base, density of population, business potential, trade area population or any other condition or circumstance. We have the right, in our sole discretion, to deny any such request we believe would not be in the best interests of the System.

10 MARKETING

10.1 Brand Fund

10.1.1 We may establish the Brand Fund for the enhancement, promotion and protection of the System and the Marks, and for the development of advertising, marketing, and public relations programs and materials as we deem appropriate. Among the programs, concepts, and expenditures for which we may utilize the Brand Fund monies are: (1) creative development and production of print ads, commercials, radio spots, point of purchase materials, direct mail pieces, door hangers, free standing inserts, brochures, logo wear, labeling, video, audio, and written materials and electronic media, and other advertising and promotional materials; (2) media placement and buying, including all associated expenses and fees; (3) administering regional and multi-regional marketing and advertising programs; (4) market research and customer satisfaction surveys, including the use of secret shoppers; (5) the creative development of, and actual production associated with, premium items, giveaways, promotions, sweepstakes, contests, public relation events, and charitable or nonprofit events; (6) creative development of signage, posters, and individual Smart Carpet Cleaning Business décor items including wall graphics; (7) recognition and awards events and programs including periodic national and regional conventions and meetings; (8) design, establishment, and maintenance of websites, extranets, intranets, search rankings, social media profiles, mobile application and other online and mobile presence; (9) retention and payment of personalities engaged as spokespersons, celebrity endorsements, advertising and promotional agencies, endorsement contracts, and other outside advisors including retainer and management fees; (10) sponsorship of sporting, charitable, or similar events; (11) review of locally produced marketing materials; (12) list acquisition and development; (13) association dues; (14) affinity program development; (15) development of third party facilities for the customization of local advertising; and (16) public relations and community involvement activities and programs.

10.1.2 We have the sole right to direct all advertising, media placement, marketing and public relations programs and activities financed by the Brand Fund, with final discretion over the strategic direction, creative concepts, materials and endorsements used and the geographic, market and media placement and allocation. You agree to participate in all advertising, marketing, promotional, research and

public relations programs instituted by the Brand Fund. You must contribute two percent (2%) of your monthly Gross Sales to the Brand Fund. Beginning with the third month after you commence operation of your Franchised Business, you must pay contribute a minimum two hundred fifty dollars (\$250) per month to the Brand Fund. The Brand Fund contribution will be payable at the same time and in the same manner as your payment of the Royalty Fee. Smart Carpet Cleaning Businesses operated by us and our affiliates also will contribute to the Brand Fund at the lowest rate specified for comparable franchisees. From time to time, we or our suppliers may deposit into the Brand Fund any rebates or similar allowances paid to us by our suppliers although we have no obligation to do so.

10.1.3 We may sell certain advertising materials, merchandise and premium items to you that are developed by the Brand Fund and the earnings from such sales will be deposited into the Brand Fund. The Brand Fund also may be used to pay the reasonable salaries and expenses of our and our affiliates' employees who work on advertising, marketing, public relations materials, programs, activities or promotions prepared, planned or undertaken on behalf of the Brand Fund and professional fees and administrative costs and overhead that we or our affiliates incur in activities reasonably related to the administration and activities of the Brand Fund (including accounting fees, legal fees, and interest on monies borrowed by the Brand Fund). We will not use the Brand Fund for anything whose sole purpose is the marketing of franchises, however, the System website, public relations activities, community involvement activities and other activities supported by the Brand Fund may contain information about franchising opportunities. We may seek the advice of our franchisees by formal or informal means with respect to the creative concepts and media used for programs financed by the Brand Fund.

10.1.4 You acknowledge that the Brand Fund and any earnings thereon will be used to maximize general public recognition, acceptance, and patronage of Smart Carpet Cleaning Businesses, and that we are not obligated, in administering the Brand Fund, to make expenditures for you which are equivalent or proportional to your contribution, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the Brand Fund. Your failure to derive any such benefit will not serve as a basis for a reduction or elimination of your obligation to contribute to the Brand Fund. The failure (whether with or without our permission) of any other franchisee to make the appropriate amount of contributions to the Brand Fund will not release you from or reduce your obligation.

10.1.5 Nothing in this Agreement will be construed to create a trust or fiduciary relationship of any kind or nature whatsoever among the parties as it relates to the Brand Fund or our actions with respect thereto, including collection of payments, maintenance of the bank account, bookkeeping, and disbursement of monies from the Brand Fund. Except as expressly provided in this Section 10, we assume no direct or indirect liability or obligation to you with respect to maintenance, direction, or administration of the Brand Fund. The Brand Fund may spend in any fiscal year more or less than the total Brand Fund contributions in that year, borrow from us or others (paying reasonable interest) to cover deficits, or invest any surplus for future use. We will prepare an annual, unaudited statement of Brand Fund collections and expenses within sixty (60) days after our fiscal year end and will provide a copy of the statement to all franchisees. We retain the final authority on all programs financed by the Brand Fund. We have the right to change or dissolve the Brand Fund at any time. If we disband the Brand Fund, then we will spend all monies in the fund for advertising and/or promotional purposes or distribute all unspent monies to contributors in proportion to their respective Brand Fund contributions during the preceding twelve (12) month period.

10.2 Local Marketing

10.2.1 We will provide a marketing plan template for you to use to create a marketing plan to launch your Franchised Business including recommended trade groups and networking organizations to join, a warm market checklist, market demographics for your Territory, commercial market breakdown, documentation of our demonstration process with comprehensive review of all tracking fields in our approved software, and financial goals for the first year of operation with a breakdown of how to get there. You must submit your marketing plan to us for our review and approval at least forty-five (45) days prior to implementation. You may not begin implementing your marketing plan without our prior written approval.

10.2.2 You shall only use such advertising, identification and promotional materials and programs (including, but not limited to, logos, printed and broadcast advertisements, stationery, business cards, press releases, signs, displays, fliers, newspaper inserts, promotional mailings and promotional literature, on-site demonstrations, one-on-one contact with potential customers, Internet sites and other uses of the Internet) which have been furnished by us or approved in advance by us. All advertising materials that you produce must bear the Marks in the form, color, location and manner that we prescribe, must be in the type of media and format that we expressly approve in writing, must be conducted in a dignified manner, and must conform to our standards and requirements. You must submit written samples of all proposed advertising and promotional plans and materials to us for our prior written approval at least ten (10) business days before their intended use, unless the plans and materials were prepared by us or have been approved by us within the last twelve (12) months. Proposed advertising plans or materials will be deemed to have been rejected if we have not approved them in writing within ten (10) business days after receipt. We reserve the right to require you to discontinue the use of any advertising or marketing material that we previously approved immediately (or as otherwise directed by us) upon written notice to you.

10.3 Electronic Marketing and Electronic Communications

10.3.1 We will host and maintain an independent webpage for the Franchised Business at an internet address that we specify. We will provide and maintain this webpage using a standard template. You agree to use an e-mail address that we assign to you for official Smart Carpet Cleaning Business (and pay all fees associated with maintaining additional e-mail addresses if you request and we assign more than one e-mail address to you) if we assign such an address to you (or to one or more of your employees), and to use that e-mail address in the manner and for the purposes that we reasonably require in the Manual or otherwise in writing. Unless we have agreed to it in writing, you may not use, register, maintain, or sponsor any URL, social networking platform, blog, messaging system, email account, user name, text address, mobile application, or other electronic, mobile or internet presence that uses or displays any of the Marks (or any derivative thereof) or that promotes any services or products of the Franchised Business. You acknowledge that the use of any electronic medium constitutes advertising and promotion subject to our approval under Section 10.2. You agree not to transmit, or cause any other party to transmit, advertisements or solicitations by broadcast media, telephone, e-mail, text message, instant message, social network, VOIP, streaming media, or other electronic media that currently exists or may exist in the future without first obtaining our prior written consent as to: (a) the content of the advertisements or solicitations; and (b) the type of media intended to be used. You must comply with our policies for use of all social media and search engine optimization activities and you must comply with all applicable laws regarding the use of email and Internet advertising including the CAN-SPAM Act of 2003. All telephone answering messages, email auto-signatures, and other identifiers of the Franchised Business must be in the form we prescribe. If we approve the use of an electronic medium, then our approval will be conditioned on your compliance with any standards and procedures we issue with respect to that type of electronic medium, including the use of any disclaimers, warnings, and other statements that we may prescribe.

10.3.2 You shall comply with our standards for the System, as set forth in the Manual or otherwise, with regard to our authorization to use, and the use of, blogs, common social networks (including Facebook and Instagram), professional networks (including LinkedIn), live blogging tools (including Twitter), virtual worlds, file, audio and video sharing sites and other similar social networking media or tools that in any way reference the Marks or involve the System or the Franchised Business.

11 **INSURANCE**

11.1 Procurement of Insurance. You shall be responsible for all loss or damage arising from or related to your development and operation of the Franchised Business, and for all demands or claims with respect to any loss, liability, personal injury, death, property damage, or expense whatsoever occurring upon the premises of, or in connection with the development or operation of, the Franchised Business. You must maintain in full force and effect throughout the term of this Agreement that insurance which you determine is necessary or appropriate for liabilities caused by or occurring in connection with the development or operation of the Franchised Business which shall include, at a minimum, insurance policies

of the kinds, and in the amounts, required by Section 11.2 and the Manual. We, and any entity with an insurable interest designated by us, shall be an additional insured in all liability policies (except workers compensation) to the extent each has an insurable interest.

11.2 Minimum Insurance Requirements. All insurance policies shall be written and maintained by an insurance company or companies satisfactory to us, in compliance with the standards, specifications, coverages and limits set forth in the Manual or otherwise provided to you in writing. We may reasonably increase the minimum required coverage and require different or additional kinds of insurance to reflect inflation, changes in standards of liability, higher damage awards or other relevant changes in circumstances and such changes will be identified in the Manual. We will notify you in writing of such modifications and you agree to secure and maintain the additional coverage or higher policy limits within thirty (30) days. In any event, these policies shall include, at a minimum, the types and levels of coverage that are included in Exhibit A.

11.3 General Insurance Requirements. The following general requirements shall apply to each insurance policy that you are required to maintain under this Agreement:

11.3.1 Each insurance policy shall be specifically endorsed to provide that the coverages shall be primary and that any insurance carried by any additional insured shall be excess and non-contributory. The applicable limits of each insurance policy shall be exhausted before any benefits (defense or indemnity) may be obtained under any other insurance (including self-insurance) providing coverage to us. The workers compensation policy shall include a waiver of subrogation in favor of us. In the event payments are required to be made under our own insurance policies or self-insurance (whether for defense or indemnity) before the applicable coverage limits for the insurance policies obtained by you are exhausted, you agree to reimburse, hold harmless and indemnify us and our insurers for such payments;

11.3.2 No insurance policy shall contain a provision that in any way limits or reduces coverage for you in the event of a claim by us or our affiliates;

11.3.3 Each insurance policy shall extend to, and provide indemnity for, all of your obligations and liabilities to third parties and all other items for which you are required to indemnify us under this Agreement; and

11.3.4 Each insurance policy shall be written by an insurance company that has received and maintains an "A" or better rating by the latest edition of A.M. Best's Insurance Rating Service.

11.4 Proof of Insurance. No later than thirty (30) days after the Effective Date of this Agreement, and on each policy renewal date thereafter, you must submit to us a certificate of insurance, or other evidence of satisfactory insurance as required by this Section 11 and proof of payment therefor. The evidence of insurance shall include a statement by the insurer that the policy or policies will not be canceled or materially altered without at least ten (10) days' prior written notice to us. Within ten (10) days of our request, you also shall provide copies of any policies and policy amendments and riders to us.

11.5 No Representations. You acknowledge and agree that no requirement for insurance contained in this Agreement constitutes advice or a representation by us that only such policies, in such amounts, are necessary or adequate to protect you from losses in connection with the Franchised Business. Maintenance of this insurance, and the performance by you of your obligations under this Section 11, shall not relieve you of liability under the indemnification provisions of this Agreement.

11.6 Procurement of Insurance by Us. Should you, for any reason, fail to procure or maintain at least the insurance required by this Section 11, as revised from time to time pursuant to the Manual or otherwise in writing, we shall have the immediate right and authority, but not the obligation, to procure such insurance and charge its cost to you. You must reimburse us for all out-of-pocket costs incurred by us in obtaining such insurance on your behalf in the manner set forth in Section 4 within ten (10) days after your receipt of our invoice.

12 ACCOUNTING AND RECORDS

12.1 Books and Records. You must prepare, maintain, and preserve for at least seven (7) years from the dates of their preparation, complete and accurate books, records, and accounts, in accordance with generally accepted accounting principles, which may include a prescribed chart of accounts and/or use of a designated accounting program or platform. You must record all sales, sales tax, and any other charges collected on behalf of third parties in accordance with the procedures prescribed in the Manual.

12.2 Reports. You must submit to us, at your expense, in the form we prescribe:

12.2.1 Within five (5) days after the end of each month, a statement of operating performance of the Franchised Business including a complete and accurate report of total revenue and other revenue and information as specified in the Manual;

12.2.2 Within thirty (30) days after the end of each of your fiscal quarters, comparative interim unaudited income statements and balance sheets;

12.2.3 Within ninety (90) days after the end of each of your fiscal years, an income statement showing the results of your operations during such fiscal year and a balance sheet as of the end of such fiscal year, both of which must be prepared in accordance with generally accepted accounting principles and reviewed by an independent certified public accountant. If, however, the foregoing income statements and balance sheets are audited by an independent certified public accountant, then you must furnish the audited income statements and balance sheets rather than the reviewed income statements and balance sheets; and

12.2.4 Within fifteen (15) days after each filing, a copy of the federal tax return for the Franchised Business.

12.3 Right to Examine or Audit. We and our designated agents will have the right to examine and copy, at our expense, on reasonable notice and during normal business hours, your books, records, accounts, and sales tax returns, whether located at your Shop, administrative office, or another venue. We will also have the right, at any time, to have an independent audit made of your books. If an inspection or audit reveals that any payment to us has been understated, you must immediately pay to us the amount owed, together with applicable interest as provided in Section 4.9. If an inspection or audit reveals an understatement of the Gross Sales of the Franchised Business of two percent (2%) or more, then you must, in addition to the payment of all monies owed with interest, reimburse us for all costs connected with the inspection or audit (including expenses for travel, lodging and wages, and reasonable accounting and legal costs). If our examination reveals an understatement of the Gross Sales of the Franchised Business for any period by two percent (2%) or more three (3) or more times during any thirty-six (36) month period, or by more than five percent (5%) on any one occasion, then, in addition to your obligations to pay the amounts owed with interest plus reimbursement as referenced above, we may immediately terminate this Agreement. The foregoing remedies are in addition to any other remedies we may have.

12.4 Data and Privacy

12.4.1 We may periodically specify in the Manual or otherwise in writing the information that you will collect and maintain on your technology systems and you will provide to us such reports as we may reasonably request from the data so collected and maintained. You agree that all data that you collect from customers, suppliers or others in connection with the Franchised Business shall be lawfully collected and maintained, including names, addresses, email addresses, phone numbers, birth dates, demographic data, behavioral data, customer service history, correspondence and other data that you create and/or collect in connection with the System, or in connection with your operation of the Franchised Business and that said data is and will be owned exclusively by us. We hereby license use of such data back to you, at no additional cost, solely for the term of this Agreement for your use, and solely for the purpose of managing the Franchised Business. We reserve the right to use or transfer this data as we deem appropriate and to

provide the information to our affiliates. You must, at your expense, transfer copies and/or originals of all data that we specify in the Manual or upon our request. You may not use any such data for activities not related to the Franchised Business without our prior written approval. You may not sell or transfer any customer data to any third party other than us and our affiliates. However, if you transfer the Franchised Business (as provided in Section 17 below), then you must also transfer use of the customer data, customer contracts, and related data to the buyer as part of the total purchase price paid for the Franchised Business. You must make a final transfer of all data that we request to us at the termination or expiration of this Agreement and you may not retain any such data.

12.4.2 In connection with any use of data in the Franchised Business, you agree to comply with all applicable laws pertaining to the privacy of customer, employee, and transactional information (“**Privacy Laws**”). You also agree to comply with our standards and policies pertaining to Privacy Laws. If there is a conflict between our standards and policies pertaining to Privacy Laws and actual applicable law, then you will: (a) comply with the requirements of applicable law; (b) immediately give us written notice of said conflict; and (c) promptly and fully cooperate with us and our counsel in determining the most effective way, if any, to meet our standards and policies pertaining to Privacy Laws within the bounds of applicable law. You agree not to publish, disseminate, implement, revise, or rescind a data privacy policy without our prior written consent with respect to such policy.

12.5 Public Filings. If you are or become a publicly-held entity in accordance with other provisions of this Agreement, then you must send to us copies of all reports (including responses to comment letters) or schedules that you may file with the U.S. Securities and Exchange Commission (certified by your chief executive officer to be true, correct, complete and accurate) and copies of any press releases you may issue within three (3) days of the filing of each report and/or schedules or the issuance of each release. If you request information from us to compile your reports, then you must reimburse us for our costs and expenses in preparing such reports.

13 MARKS AND THE PROPRIETARY MATERIALS

13.1 Our Representations. We represent to you that we and our affiliates own (or have an appropriate license to) all right, title, and interest in and to the Marks, and that we have taken (and will take) all steps reasonably necessary to preserve and protect the ownership and validity in, and of, the Marks.

13.2 Identification of the Franchised Business. You must operate, advertise, and promote the Franchised Business only under the Marks. In conjunction with any use of the Marks, including on all customer contracts, checks and negotiable instruments, invoices, letterhead, email signature blocks and other electronic media, stationery, order forms, and business cards you must identify yourself to the public as an independent franchisee operating under the authority of this Agreement.

13.3 Proprietary Materials. You acknowledge and agree that we and/or our affiliates are the owners of the Proprietary Materials and that the copyrights in the Proprietary Materials are valuable property. We authorize you to use the Proprietary Materials on the condition that you comply with all of the terms and conditions of this Agreement, including this Section 13. You acknowledge and agree that we may create, acquire or obtain licenses for certain additional copyrights in various works of authorship used in connection with the operation of a Smart Carpet Cleaning Business, including all categories of works eligible for protection under the United States copyright law, all of which will be deemed to be part of the Proprietary Materials. The Proprietary Materials include the Manual, advertisements, promotional materials, labels, posters, coupons, gift certificates and gift cards, customer contracts, vehicle wraps, signs, websites, and facility designs, plans and specifications. The Proprietary Materials may incorporate all or part of the Marks or other trade dress used as part of the System. You acknowledge that this Agreement does not confer any interest in the Proprietary Materials on you, other than the right to use the Proprietary Materials in the operation of the Franchised Business in compliance with the terms of this Agreement. If you prepare any adaptation, translation or work derived from the Proprietary Materials, including advertisements, promotional materials, labels, posters, or websites, whether or not such adaptation was authorized by us, then you agree that such material will be our property and you hereby assign all your right, title and interest therein to us (or to a third party designated by us). You agree to execute any documents, in recordable

form, which we deem necessary to reflect or perfect such ownership. You must submit all such adaptation, translation or derivative works to us for our written approval prior to use.

13.4 Limitations on Use. Your right to use the Marks and the Proprietary Materials is limited to the uses we authorize under this Agreement and any unauthorized use will constitute an infringement of our rights. Therefore, you agree to:

13.4.1 Use only the Marks and the Proprietary Materials that we designate and use them only in the manner we authorize;

13.4.2 Use the Marks and Proprietary Materials only for the operation of the Franchised Business and only in the Territory or in advertising for the Franchised Business;

13.4.3 Operate and advertise the Franchised Business only under the name "Smart Carpet Cleaning" and use all Marks without prefix or suffix;

13.4.4 Refrain from using the Marks as part of your corporate or legal name;

13.4.5 Ensure that all advertising and promotional materials, packaging, signs, decorations, websites, and other items that we may specify, bear the Marks in the form, color, size, and location we prescribe;

13.4.6 Not use the Marks to incur any obligation or indebtedness on behalf of us or our affiliates;

13.4.7 Not use the Marks on any human resources materials including policies, forms, paychecks, and manuals;

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

13.4.9 Not directly or indirectly contest the validity of, or take any other action which tends to jeopardize our or our affiliates' rights to the ownership of or right to use and to license others to use the Marks or the Proprietary Materials; and

13.4.10 Ensure that the Marks and the Proprietary Materials bear the "®", "™", "SM" or © notice, respectively, as we may prescribe from time to time.

13.5 Acknowledgments. You acknowledge that:

13.5.1 The Marks and the Proprietary Materials are valid and serve to identify the System and those who are authorized to operate under the System;

13.5.2 Your use of the Marks and Proprietary Materials pursuant to this Agreement does not give you any ownership interest or other interest in the Marks or the Proprietary Materials;

13.5.3 Any and all goodwill arising from your use of the Marks and the Proprietary Materials will inure exclusively to our benefit and to the benefit of our affiliates, and upon expiration or termination of this Agreement, no monetary amount will be assigned as attributable to any goodwill associated with your use of the System, the Marks, or the Proprietary Materials; and

13.5.4 The license granted under this Agreement to use the Marks and the Proprietary Materials is nonexclusive.

13.6 Changes to the Marks and the Proprietary Materials. We reserve the right to modify or require you to discontinue use of any of the Marks or the Proprietary Materials and/or to substitute different service marks, trademarks or copyrighted material for use in identifying the System and the Franchised Businesses operating under the System. When required by us, you must promptly discontinue use of designated Marks or Proprietary Materials or implement any modification or substitution at your own cost and expense. We will have no obligation or liability to you as a result of such modification or substitution.

13.7 Third Party Challenges. You must promptly notify us of any unauthorized use or reproduction of the Marks or the Proprietary Materials, any challenge to the validity of the Marks or the Proprietary Materials, the ownership by us and our affiliates of the Marks and the Proprietary Materials, our right to use and to license others to use the Marks and the Proprietary Materials, or your right to use the Marks or Proprietary Materials. You acknowledge that we and our affiliates have the right to direct and control any administrative proceeding or litigation involving the Marks or Proprietary Materials, including any settlement thereof. We and our affiliates have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Marks or Proprietary Materials. We will defend you against any third-party claim that your use of the Marks or the Proprietary Materials infringes the rights of the third party. We will bear the cost of defense (including the cost of any judgment or settlement) if you have used the Marks and the Proprietary Materials in accordance with the terms of this Agreement, but otherwise you must bear the cost of the defense (including the cost of any judgment or settlement). You must execute any and all documents and do such acts as we deem necessary to carry out the defense or prosecution of any litigation involving the Marks or the Proprietary Materials, including becoming a nominal party to any legal action.

14 YOUR ORGANIZATION AND MANAGEMENT

14.1 Your Organization

14.1.1 If you are a legal entity such as a corporation, a limited liability company or a partnership, you make the following representations and warranties: (a) you are duly organized and validly existing under the laws of the state of your formation; (b) you are qualified to do business in the state or states in which the Territory is located; (c) execution of this Agreement and the development and operation of the Franchised Business is permitted by your governing documents; and (d) unless waived in writing by us, your Articles of Incorporation, Articles of Organization or written partnership agreement shall at all times provide that your activities are limited exclusively to the development and operation of Smart Carpet Cleaning Businesses.

14.1.2 If you are an individual, or a partnership comprised solely of individuals, you make the following additional representations and warranties: (a) each individual has executed this Agreement; (b) each individual shall be jointly and severally bound by, and personally liable for the timely and complete performance and a breach of, each and every provision of this Agreement; and (c) notwithstanding any transfer to a business entity, each individual shall continue to be jointly and severally bound by, and personally liable for the timely and complete performance and breach of, each and every provision of this Agreement.

14.2 Ownership Interests. If you are a business entity, all interests in you are owned as set forth in attached Exhibit B. You must comply with Section 17 prior to any change in ownership interests and must sign addenda to Exhibit B as changes occur in order to ensure the information contained in Exhibit B is true, accurate and complete at all times.

14.3 Governing Documents. Upon request by us, you shall promptly deliver to us, as applicable, true and complete copies of the articles or certificate of incorporation, partnership agreement, bylaws, subscription agreements, buy-sell agreements, voting trust agreements and all other documents relating to your ownership, organization, capitalization, management and control and all amendments thereto. When any of these governing documents are modified or changed, you promptly shall provide copies to us. If you are a corporation, then you shall maintain stop-transfer instructions against the transfer on the records of any voting securities, and each stock certificate of the corporation shall have conspicuously endorsed upon

its face the following statement: "Any assignment or transfer of this stock is subject to the restrictions imposed on assignment by the Smart Carpet Cleaning Franchise Agreement(s) to which the corporation is a party." If you are a publicly held corporation, then these requirements shall apply only to the stock owned by your Continuity Group. If you are a limited liability company, then each membership or management certificate shall have conspicuously endorsed upon its face the following statement: "Any assignment or transfer of an interest in this limited liability company is subject to the restrictions imposed on assignment by the Smart Carpet Cleaning Franchise Agreement(s) to which the limited liability company is a party." If you are a partnership, then your written partnership agreement shall provide that ownership of an interest in the partnership is held, and that further assignment or transfer thereof, is subject to all restrictions imposed on assignment by this Agreement.

14.4 Guarantee of Performance

14.4.1 Each of your owners and each of their spouses, if applicable, shall jointly and severally personally guarantee your payment and performance under this Agreement and personally bind themselves to the terms of this Agreement pursuant to the Guarantee, Indemnification and Acknowledgement ("**Guarantee**") attached as Exhibit C. Unless you are a publicly-held entity, all of your officers, directors, limited liability company managers and their spouses, if applicable, also shall jointly and severally guarantee your payment and performance under this Agreement and bind themselves to the terms of this Agreement pursuant to the attached Guarantee. Notwithstanding the foregoing, we reserve the right, in our sole discretion, to waive the requirement that some or all of the previously described individuals sign the attached Guarantee. We also reserve the right to require any guarantor to provide personal financial statements to us from time to time.

14.4.2 With respect to your owners, you acknowledge that, unless otherwise agreed to in writing by us, it is our intent to have individuals (and not corporations, limited liability companies or other entities) sign the Guarantee. Accordingly, if any owner is not an individual, then we shall have the right to require individuals who have only an indirect ownership interest in you to sign the Guarantee. (By way of example, if an owner is a corporation, then we have the right to require individuals who have an ownership interest in that corporation to sign the Guarantee.)

14.5 Managing Owner. You must designate one of your owners as your Managing Owner who will be the person with whom we communicate and whom will have the authority to bind you with respect to all financial, operational and legal matters related to the Franchised Business and this Agreement. The Managing Owner may also serve as the General Manager of your Franchised Business or the Multi-Unit Manager of all of your Smart Carpet Cleaning Businesses operated by you and your affiliates. You must designate a replacement within thirty (30) days after your Managing Owner ceases to qualify as a Managing Owner. Your replacement must successfully complete our initial training program, which may be conducted by your trainers, within thirty (30) days of their appointment as your Managing Owner. Your designee to become the Managing Owner must satisfy the criteria set forth in this Section 14.5 and be approved by us.

14.6 Multi-Unit Manager. If you or your affiliates own or control more than one (1) franchised Smart Carpet Cleaning Business and your Managing Owner requests our consent to devote less than full time to supervising the operation of the Smart Carpet Cleaning Businesses, you must designate and retain an individual to serve as the Multi-Unit Manager. The Multi-Unit Manager shall devote full time and best efforts to supervising the operation of the Franchised Business and the other franchised Smart Carpet Cleaning Businesses that you and your affiliates operate and shall not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations under this Agreement. You agree to provide us with an executed copy of any arrangement, agreement or contract, and all amendments thereto, between you and your Multi-Unit Manager related to the operation of the franchised Smart Carpet Cleaning Businesses. The Multi-Unit Manager shall successfully complete our initial training program and any additional training that we require. We must have approved the Multi-Unit Manager and not have later withdrawn that approval. If the Multi-Unit Manager no longer qualifies as such, you shall designate a replacement approved by us within thirty (30) days after the date the prior Multi-Unit Manager ceases to be qualified. Your replacement

must successfully complete our initial training program, which may be conducted by your trainers, within thirty (30) days of their appointment as your Multi-Unit Manager.

15 COVENANTS

15.1 Confidentiality

15.1.1 You acknowledge and agree that: (a) we own all right, title and interest in and to the System; (b) the System includes trade secrets and confidential and proprietary information and know-how that gives us a competitive advantage; (c) we have taken all measures appropriate to protect the trade secrets and the confidentiality of the proprietary information and know-how of the System; (d) all material or other information now or hereafter provided or disclosed to you regarding the System is disclosed in confidence; (e) you have no right to disclose any part of the System to anyone who is not your employee; (f) you will disclose to your employees only those parts of the System that an employee needs to know; (g) you will have a system in place to ensure that your employees keep confidential our trade secrets and confidential and proprietary information, and, if requested by us, you shall obtain from those of your employees designated by us an executed confidentiality and non-disclosure agreement in the form prescribed by us; (h) by entering into this Agreement, you do not acquire any ownership interest in the System; and (i) your use or duplication of the System or any part of the System in any other business, or disclosure of any part of the System to others for use or duplication in any other business, would constitute an unfair method of competition, for which we would be entitled to all legal and equitable remedies, including injunctive relief, without posting a bond.

15.1.2 You shall not, during the term of this Agreement or at any time thereafter, communicate or disclose any trade secrets or confidential or proprietary information or know-how of the System to any unauthorized person, or do or perform, directly or indirectly, any other acts injurious or prejudicial to any of the Marks or the System. Any and all information, knowledge, know-how and techniques, including all drawings, materials, equipment, specifications, methods, techniques and other data that we or our affiliates designate as confidential shall be deemed confidential for purposes of this Agreement.

15.2 Restrictions On Competition

15.2.1 You acknowledge and agree that: (a) pursuant to this Agreement, you will have access to valuable trade secrets, specialized training and other confidential information from us and/or our affiliates regarding the development and operation of Smart Carpet Cleaning Businesses, carpet cleaning services, customer recruitment and retention strategies, market and operations research, advertising and marketing plans and strategies, purchasing, sales and marketing methods and techniques owned by us and our affiliates; (b) the know-how regarding the System and the opportunities, associations and experience acquired by you pursuant to this Agreement are of substantial value; (c) in developing the System, we and our affiliates have made substantial investments of time, effort, and money; (d) we would be unable adequately to protect the System and its trade secrets and confidential and proprietary information against unauthorized use or disclosure and would be unable adequately to encourage a free exchange of ideas and information among operators of Smart Carpet Cleaning Businesses if franchisees were permitted to engage in the activities described in this Section 15.2 or to hold interests in the businesses described in this Section 15.2; and (e) the restrictions on your right to hold interests in, or perform services for, the businesses described in this Section 15.2 will not unduly limit your activities.

15.2.2 You covenant and agree that, except as we otherwise approve in writing, during the Initial Term, and for a continuous period of two (2) years following the expiration, transfer or termination of this Agreement, you will not, either directly or indirectly, for yourself or through, on behalf of, or in conjunction with any person or legal entity:

15.2.2.1 Own, maintain, operate, engage in, grant a franchise to, advise, help, make loans to, lease property to or have any interest in, either directly or indirectly, any business that offers carpet cleaning services ("**Competing Business**"). During the term of this Agreement, there is no

geographical limitation on this restriction. Following the expiration, transfer or termination of this Agreement, this restriction shall apply to any Competing Business offering services to customers located: (a) within your Territory plus the area formed by extending the boundary of your Territory by ten (10) miles in any direction; or (b) within the territory assigned to any then-existing Smart Carpet Cleaning Business, plus the area formed by extending the boundaries of that territory by ten (10) miles in all directions; or

15.2.2.2 Divert or attempt to divert any present or prospective business or customer to any Competing Business by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

15.3 Exception for Publicly Traded Stock. The restrictions contained in Section 15.2 will not apply to ownership of less than a five percent (5%) beneficial interest in the equity securities of any publicly-held corporation.

15.4 Owners and Employees. Your guarantors who sign the Guarantee attached to this Agreement as Exhibit C will agree to be bound personally by the provisions of this Section 15, provided that, as to them, the time period in Section 15.2 will run from the expiration, termination, or transfer of this Agreement or from the termination of the individual's relationship with you, whichever occurs first. At our request, you must obtain signed agreements similar in substance to this Section 15 (including agreements applicable upon termination of a person's relationship with you) from your General Manager, any individual who attends our training programs and your officers, directors, and owners. Each agreement required by this Section 15.4 must be in a form we approve and specifically identify us as a third party beneficiary with the independent right to enforce the agreement.

15.5 Enforcement

15.5.1 We have the right, in our sole discretion, to reduce the scope of any restriction in Section 15.2 by giving you written notice and you agree to comply with any covenant so modified, which shall be fully enforceable notwithstanding the provisions of Section 25.

15.5.2 You agree that the existence of any claims you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of this Section 15.

15.5.3 You acknowledge that your violation of the terms of this Section 15 would result in irreparable injury to us for which no adequate remedy at law may be available, and you accordingly consent to the issuance of an injunction prohibiting any conduct by you in violation of the terms of this Section 15. Injunctive relief will be in addition to any other remedies we may have.

15.5.4 If you or any other person bound by this Section 15 fails or refuses to abide by any of the foregoing restrictions on competition, and we obtain enforcement in any legal proceeding, the obligations under the breached restriction will continue in effect for a period ending two (2) years after the date the person begins to comply with the order enforcing the restriction.

16 **TRANSFER BY US**

We have the right to transfer or assign this Agreement or any part of our rights or obligations under this Agreement to any person or legal entity. You agree that we will have no liability after the effective date of the transfer or assignment for the performance of any obligations under this Agreement. You acknowledge that 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.

17 TRANSFER BY YOU

17.1 Transfer. You acknowledge that the rights and duties set forth in this Agreement are personal to you and that we have granted these rights in reliance on your business skill, financial capacity, and personal character (or, if you are a business entity, on the business skill, financial capacity, and personal character of your owners and management). Accordingly, neither you nor any immediate or remote successor to any interest in this Agreement, nor any individual, partnership, corporation, or other legal entity which directly or indirectly owns any interest in you, will sell, assign, transfer, convey, pledge, encumber or give away any direct or indirect interest in this Agreement, in you, or in substantially all of the assets of the Franchised Business without our prior written consent, which will not be unreasonably withheld. You must provide written notice to us ("**Transfer Notice**") of any proposed transfer ("**Proposed Transfer**") at least ninety (90) days before the Proposed Transfer is to take place, which must include all information and documentation relating to the terms of the Proposed Transfer and any other information and/or documents that we reasonably request. Notwithstanding the foregoing, you may grant a security interest in, or otherwise encumber certain assets of the Franchised Business, excluding the Franchise Agreement, in connection with obtaining financing for the development and/or operation of the Franchised Business or equipment leasing, if such financing satisfies our requirements, which may include execution of agreements by us, you and your owners and your secured creditor, in a form satisfactory to us, acknowledging such creditor's obligations to be bound by the terms of this Section 17.

17.2 Our Right of First Refusal. We have the right, exercisable within thirty (30) days after receipt of your Transfer Notice pursuant to this Section 17 (other than a proposed transfer to immediate family members of your owners who meet our operational and financial criteria for new franchisees), to purchase the interest proposed to be transferred. The Transfer Notice must include a true and complete copy of the term sheet, letter of intent, proposed purchase agreement, assignment document, or any other document necessary to implement the Proposed Transfer, and the Proposed Transfer must not be subject to financing or any other contingencies. Our thirty (30) day period for determining whether or not to exercise our right of first refusal will not begin until the transferor has provided all information and documentation that we require in a form and substance satisfactory to us. We may assign this right of first refusal to an affiliate or a third party, including to another franchisee, in our sole discretion. If we desire to exercise our right of first refusal, we will do so by providing written notice (the "**Purchase Notice**") to the transferor, as follows:

17.2.1 If the transfer is proposed to be made pursuant to a sale, we may purchase the interest proposed to be transferred on the same financial terms and conditions offered by the third party. Closing on our purchase will occur within sixty (60) days after the date of the transferor's receipt of the Purchase Notice. If the consideration, terms, and/or conditions offered by the third party are such that we may not reasonably be required to furnish the same consideration, terms, and/or conditions, then we may purchase the interest proposed to be sold for the reasonable equivalent in cash. If, within thirty (30) days of the transferor's receipt of the Purchase Notice the parties cannot agree as to the reasonable equivalent in cash consideration, an independent appraiser will be appointed by mutual agreement and the determination of the appraiser will be binding. Any material change in the terms of the offer from a third party after we have elected not to purchase the interest sought to be transferred will constitute a new offer subject to the same rights of first refusal by us as in the case of the third party's initial offer.

17.2.2 If the 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 may purchase the interest at the fair market value determined by the appraiser. Closing on the purchase will occur within forty-five (45) days after our notice to the transferor of the appraiser's determination of fair market value.

17.2.3 Our failure to exercise our right of first refusal shall not constitute approval of the proposed transfer nor a waiver of any other provision of this Section 17 with respect to a proposed transfer. If we do not exercise our right of first refusal, you or your owners may complete the sale to such offeror pursuant to and on the exact terms of such offer, subject to our consent to the transfer as provided in Section 17.2, provided that if the sale to such offeror is not completed within sixty (60) days after receipt of our notice of our decision not to exercise our right of first refusal, or if there is a material change in the terms

of the offer, you must promptly notify us, and we will have an additional right of first refusal (on the terms of the revised offer, if any, and otherwise as set forth herein) during the thirty (30) day period following your notification of the expiration of the sixty (60) day period or the material change to the terms of the offer.

17.3 Conditions of Our Consent. If we elect not to exercise our right of first refusal under Section 17.3, then the proposed transferor may complete the transfer after obtaining our written consent as required under Section 17.2. We may withhold our consent on any reasonable grounds, or may give our consent subject to reasonable conditions, which may include the following:

17.3.1 That all of your accrued monetary obligations to us and our affiliates (whether arising under this Agreement or otherwise) and all other outstanding obligations related to the Franchised Business (including bills from suppliers, taxes, judgments and any required governmental reports, returns, affidavits or bonds) have been satisfied or, in our reasonable judgment, adequately provided for. We reserve the right to require that a reasonable sum of money be placed in escrow to ensure that all of these obligations are satisfied;

17.3.2 That you are not then in material default of any provision of this Agreement or any other agreement between you and us or our affiliates, are in good standing as a franchisee with us and our affiliates, are not in default beyond the applicable cure period under any real estate lease, equipment lease or financing instrument relating to the Franchised Business and are not in default beyond the applicable cure period with any Authorized Supplier to the Franchised Business;

17.3.3 That the sales price shall not be so high, in our reasonable judgment, as to jeopardize the ability of the transferee to develop, maintain, operate and promote the Franchised Business and meet financial obligations to us, third party suppliers and creditors. Our decision with respect to a proposed transfer shall not create any liability on the part of us: (a) to the transferee, if we approve the transfer and the transferee experiences financial difficulties; or (b) to the transferor or the proposed transferee, if we reject the transfer pursuant to this Section 17 or for other legitimate business purposes. We, without any liability to the transferor or the proposed transferee, have the right, in our sole discretion, to communicate and counsel with the transferor, you, and the proposed transferee regarding any aspect of the proposed transfer;

17.3.4 That the transferor executes a general release, in a form satisfactory to us, of any and all claims against us, our affiliates, and their respective past, present, and future officers, directors, shareholders, and employees, in their corporate and individual capacities;

17.3.5 That the transferee (and if the transferee is a corporation, partnership, or limited liability company, then such owners of a beneficial interest in the transferee as we may request) enter into a written assignment, in a form satisfactory to us, assuming and agreeing to discharge all of your obligations under this Agreement; or, at our option, enter into our then current form of Franchise Agreement; and, if the transferor guaranteed your obligations under this Agreement, that the transferee guarantee the performance of all such obligations in writing in a form satisfactory to us;

17.3.6 If the transferee is an existing Smart Carpet Cleaning developer or franchisee, that the transferee is not in default under its agreements with us, its landlords, lenders and its Authorized Suppliers and has a good record of customer service and compliance with our operating standards;

17.3.7 That the transferee demonstrates to our satisfaction that he or she meets (or, if the transferee is a business entity, that its owners and management team meet) our educational, managerial, and business standards; possesses a good moral character, business reputation, and credit rating; has the aptitude and ability to conduct the business contemplated hereunder (as may be evidenced by prior related business experience or otherwise); has the ability to obtain a possessory interest in the Shop and administrative office; has the ability to obtain all required licenses and permits to operate the Franchised Business; and has adequate financial resources and capital to fulfill your obligations under this Agreement in a timely manner;

17.3.8 That you have corrected any existing deficiencies of the Franchised Business of which we have notified you, and/or the proposed transferee agrees to upgrade the Shop, administrative office, vehicles and equipment in accordance with our then-current requirements and specifications for Smart Carpet Cleaning Businesses within the time period we specify following the effective date of the transfer (we will advise the proposed transferee before the effective date of the transfer of the specific actions that are required and the time period within which such actions must be taken);

17.3.9 That the transferor pays a transfer fee in the amount of ten thousand dollars (\$10,000). If the transaction involves one or more Smart Carpet Cleaning Businesses in addition to the Franchised Business franchised under this Agreement, then the transferor must also pay the transfer fee specified in the franchise agreement for each other Smart Carpet Cleaning Business in the transaction; and

17.3.10 That the transferee's Managing Owner and General Manager (who have not previously completed our training program) complete any training programs then in effect for new franchisees and the transferee pays our then-current transfer training fee.

17.4 Transfers to an Entity Wholly Owned by You. If you desire to transfer this Agreement to a corporation or limited liability company wholly owned by you, where the ownership and management of the Franchised Business will not change, then the requirements of Section 17.2 shall apply to such a transfer; however, you will not be required to pay a transfer fee. Our consent also will be conditioned on the following: (a) the entity must be newly organized; (b) prior to the transfer, we must receive a copy of the documents specified in Section 17.2 and the transferee shall comply with the remaining provisions of Section 17; and (c) you must own all voting securities of the newly formed corporation (or membership interests of the newly formed limited liability company) or, if you are owned by more than one individual, each person shall have the same proportionate ownership interest in the corporation (or the limited liability company) as prior to the transfer.

17.5 Death, Incapacity or Bankruptcy. If you or any owner dies, becomes incapacitated, or enters bankruptcy proceedings, then that person's executor, administrator, personal representative, or trustee must apply to us in writing within three (3) months after the event (death, declaration of incapacity, or filing of a bankruptcy petition) for consent to transfer the person's interest. The transfer will be subject to the provisions of this Section 17, as applicable; however, you will not be required to pay a transfer fee. In addition, if the deceased or incapacitated person is the Managing Owner or the General Manager of the Franchised Business, then 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, then we can charge a weekly management fee for our services equal to the greater of (a) two (2) times the weekly salary of your General Manager, or (b) ten percent (10%) of the weekly Gross Sales of the Franchised Business. 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 (a) for a period of thirty (30) or more consecutive days, or (b) 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 transfer set forth in Section 17.4, then 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 17.6 within six (6) months after the date of death or appointment of a personal representative or trustee, then we can terminate this Agreement under Section 19.2.

17.6 Nonconforming Transfers Void. Any purported assignment or transfer that is not in compliance with this Section 17 will be null and void and will constitute a material breach of this Agreement, for which we may terminate this Agreement without opportunity to cure pursuant to Section 19.2 below. Our consent to a transfer will not constitute a waiver of any claims we may have against the transferor, nor will it be deemed a waiver of our right to demand exact compliance by the transferor, transferee or you with any of the terms of this Agreement.

18 RENEWAL

18.1 Successor Terms. When this Agreement expires, you will have an option to remain a franchisee and continue to operate the Franchised Business in the Territory for two (2) successor terms of five (5) years each (the “**Successor Terms**”) if we are still offering franchises in your Territory and if you are in substantial compliance with the terms of this Agreement. The qualifications and conditions for the Successor Term are described below.

18.2 Conditions for the Successor Term. In order to be eligible for the first Successor Term, you must meet the following conditions:

18.2.1 You must give us written notice of your election to remain a franchisee and continue to operate the Franchised Business in the Territory for the Successor Term at least six (6) months and no more than nine (9) months before the end of the Initial Term;

18.2.2 You must not be in default of this Agreement or any other agreement with us and/or our affiliates or Authorized Suppliers, either at the time of giving the notice in Section 18.2.1 or during the remainder of the Initial Term;

18.2.3 As determined by us in our sole discretion, you must have operated the Franchised Business and all of your other franchised Smart Carpet Cleaning Businesses in accordance with the applicable franchise agreements and with the System (as set forth in the Manual or otherwise and as revised from time to time by us);

18.2.4 You must present satisfactory evidence to us that you have the right to remain in possession of the Shop and administrative office, or other Shop/office locations acceptable to us, for the Successor Term and all monetary obligations owed to your landlord, if any, must be current;

18.2.5 You must be operating the Franchised Business in full compliance with all federal, state and local laws and regulations and you must demonstrate that you are able to maintain all licenses and permits necessary to continue to operate the Franchised Business for the Successor Term;

18.2.6 You must agree to renovate and modernize the Franchised Business as we may reasonably require, which may include the purchase and installation of new equipment, signs, furnishings, fixtures, vehicles and vehicle wraps, and décor to reflect our then-current standards and image of Smart Carpet Cleaning Businesses; and

18.2.7 You must comply with our qualification and training requirements for new Smart Carpet Cleaning Business franchisees.

18.3 Successor Franchise Agreement. If you are eligible and you elect to remain a franchisee for the Successor Term, then you and your owners must: (a) sign our then-current form of successor franchise agreement (modified as necessary to reflect the fact that it is a successor franchise agreement), which will supersede this Agreement in all respects and which may provide for higher fees, fees not included in this Agreement, and other terms and conditions materially different from the terms of this Agreement; (b) sign a general release, in a form we prescribe, of any and all claims against us, our affiliates, and their respective past and present officers, directors, shareholders, and employees, in their corporate and individual capacities; and (c) pay us a successor franchise fee in the amount of five thousand dollars (\$5,000) (“**Successor Franchise Fee**”). Your failure to sign the successor franchise agreement and general release and return these documents to us with the Successor Franchise Fee prior to the expiration of the Initial Term will be deemed an election by you not to exercise your right to remain a franchisee for the Successor Term and will result in the expiration of this Agreement and the franchise granted by this Agreement at the end of the Initial Term.

19 DEFAULT AND TERMINATION

19.1 Termination without Notice. You will be deemed to be in default under this Agreement, and all rights granted to you in this Agreement will automatically terminate without notice to you, if you become insolvent or make a general assignment for the benefit of creditors; if a petition in bankruptcy is filed by you or is filed against you and not opposed by you and is not extinguished within sixty (60) days; if you are adjudicated as bankrupt or insolvent; if a bill in equity or other proceeding for the appointment of a receiver or other custodian for your business or assets is filed and consented to by you; if a receiver or other custodian (permanent or temporary) of your assets or property, or any part thereof, is appointed by any court of competent jurisdiction; if proceedings for a composition with creditors under any state or federal law are instituted by or against you; if a final judgment against you remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); if you are dissolved; if execution is levied against your business or property; if suit to foreclose any lien or mortgage against the Shop or equipment of the Franchised Business is instituted against you and not dismissed within thirty (30) days; or if the real or personal property of the Franchised Business is sold after levy thereupon by any sheriff, marshal, or constable.

19.2 Termination without Cure Period. If any of the following events of default occurs, then we may terminate this Agreement without providing you any opportunity to cure the default, effective immediately upon receipt of written notice by you:

19.2.1 You fail to meet the Opening Deadline.

19.2.2 You cease to operate the Franchised Business for any three (3) day period, unless the closing is due to fire, flood, earthquake or other similar causes beyond your control or is approved in writing in advance by us.

19.2.3 Your Managing Owner and General Manager fail to satisfactorily complete our initial training program.

19.2.4 You, your owners, your employees or your independent contractors do business with third parties in violation of any Anti-Terrorism Laws and/or the FCPA.

19.2.5 You fail to operate the Franchised Business in full compliance with federal, state and local laws and regulations or fail to cure such violations within fifteen (15) days of notification or such longer period if you are diligently working to cure the violation and the cure is not possible within such fifteen (15) day period.

19.2.6 There is a governmental action against you that, in our sole discretion, would adversely impact you or the System; or continuation of the business relationship between the parties would cause us to be in violation of any federal, state or local laws or regulations.

19.2.7 There is a material breach by you of any covenant or obligation under Section 15.

19.2.8 Any transfer that requires our prior written consent occurs without your having obtained that prior written consent.

19.2.9 You fail to dispose of an interest under Section 17.6 within six (6) months after the date of death or appointment of a personal representative or trustee.

19.2.10 We discover that you made a material misrepresentation in or omitted a material fact from the information that you provided to us in connection with our decision to enter into this Agreement.

19.2.11 You knowingly falsify any report required to be furnished to us or make any material misrepresentation in your dealings with us or fail to disclose any material facts to us.

19.2.12 You, your Managing Owner or any of your owners are convicted of, or plead no contest to, a felony charge, a crime involving moral turpitude, or any other crime or offense that is reasonably likely, in our sole opinion, to adversely affect us, our affiliates or the System.

19.2.13 You, your Managing Owner, or any of your owners (a) materially misuse or make unauthorized use of the Marks or Proprietary Materials, (b) commit any act or take any action that impairs the goodwill of the Marks, (c) use the Proprietary Materials or other proprietary System knowledge at any other business owned or operated by you or your owners; or (d) fail to cure any breach or default under this Agreement that materially impairs or can be expected to impair the goodwill associated with the Marks.

19.2.14 You understate the Gross Sales of the Franchised Business for any period by two percent (2%) or more three (3) or more times during any thirty six (36) month period, or by more than five percent (5%) on any one occasion.

19.2.15 You conceal revenue, taking for your own use employee taxes, FICA, insurance or benefits or any of our property.

19.2.16 You engage in any "grey marketing" activities where you take advantage of purchasing arrangements for Smart Carpet Cleaning Businesses and transfer products to any other business not operating under the System.

19.2.17 You, your affiliates, or any owner: (a) remain in default beyond the applicable cure period under any other agreement with us or our affiliates (provided that, if the default is not by you, then we shall provide to you written notice of the default and a fifteen (15) day period to cure the default); (b) remain in default beyond the applicable cure period under any real estate lease, equipment lease, financing instrument or Authorized Supplier contract relating to the Franchised Business; (c) fail to pay when due any taxes or assessments relating to the Franchised Business or its employees, unless you are actively prosecuting or defending the claim or suit in a court of competent jurisdiction or by appropriate government administrative procedure or by arbitration or mediation conducted by a recognized alternative dispute resolution organization.

19.2.18 After curing a default, you commit the same default of this Agreement within a two (2) year period.

19.2.19 You repeatedly fail to comply with one or more requirements of this Agreement, regardless of whether you have previously cured the default.

19.3 Emergency Closing. If we in good faith believe that you are using products or utilizing procedures at the Franchised Business that are unsafe to customers and/or employees, then we have the right, without prior notice, to immediately close your Franchised Business until such time as the unsafe products or procedures are no longer served or used. You will have twenty-four (24) hours after the closing of the Franchised Business to prepare a written plan detailing the procedures that you will put in place to ensure that the unsafe practice has been fully remedied and will not recur. If you and we cannot agree on a plan, or if you intentionally fail to follow the plan agreed upon, then we will have the right to terminate this Agreement by written notice, with no further opportunity for you to cure the default.

19.4 Termination Following Expiration of Cure Period

19.4.1 Except as otherwise provided above in Sections 19.1 and 19.2 above, if you fail to maintain or observe any of the standards or procedures prescribed by us in this Agreement, the Manual, or otherwise in writing, then we may only terminate this Agreement by giving you written notice of termination (in the manner set forth under Section 24 below) stating the nature of the default at least thirty (30) days before the effective date of termination; provided, however, that you may avoid termination by immediately initiating a remedy to cure such default, by in fact curing the default to our satisfaction, and by promptly providing proof of the cure to us, all within the thirty (30) day period. If any such default is not cured within

the specified time (or such longer period as applicable law may require), then this Agreement shall terminate without further notice to you effective immediately upon the expiration of the thirty (30) day period (or such longer period as applicable law may require).

19.4.2 Notwithstanding the provisions of preceding Section 19.4.1, if you default in the payment of any monies owed to us when such monies become due and payable and you fail to pay such monies within ten (10) days after receiving written notice of default (or such longer period as applicable law may require), then this Agreement shall terminate without further notice to you effective immediately upon the expiration of the ten (10) day period or such longer period as applicable law may require.

19.4.3 In addition to the other provisions of this Section 19.4, if we reasonably determine that you are or will become unable to meet your obligations to us or our affiliates under this Agreement, then we may provide you written notice to that effect and demand that you provide those assurances reasonably designated by us, which may include security or letters of credit for the payment of your obligations to us and our affiliates. If you fail to provide the assurances demanded by us within thirty (30) days after receipt of written notice from us, then this Agreement shall terminate without further notice to you effective immediately upon expiration of that time, unless we notify you otherwise in writing.

19.5 Termination Following Inspection. We will have the right to periodically conduct inspections of the Franchised Business to evaluate your compliance with the System and this Agreement. Following each inspection, we will provide you an report listing your score on the inspection and those conditions at the Franchised Business that must be rectified. If you fail to achieve a passing score on an inspection, our report shall constitute a notice of default. If you fail to achieve a passing score on the next inspection (which shall be conducted at least thirty (30) days after your receipt of our report for the prior inspection), then we may terminate this Agreement, without opportunity to cure, by providing you written notice of termination along with our report.

19.6 Statutory Limitations. If any valid, applicable law or regulation of a competent governmental authority with jurisdiction over this Agreement requires a notice or cure period prior to termination longer than set forth in this section, then this Agreement will be deemed amended to conform to the minimum notice or cure period required by the applicable law or regulation.

20 OBLIGATIONS UPON TERMINATION OR EXPIRATION

20.1 Obligations. Except as provided in Section 20.2 below, upon termination or expiration of this Agreement:

20.1.1 You must immediately cease operating the Franchised Business;

20.1.2 You must promptly pay all sums owing to us, our affiliates and Authorized Suppliers. In the event of termination for your default, the sums will include all damages, costs, and expenses incurred by us as a result of the default, including reasonable attorneys' fees. You must permit our access to, and examination of, books and records as provided in Section 12 to determine any amounts due;

20.1.3 You must promptly deliver to us the Manual and all other records, correspondence, and instructions in your possession or control, in any medium, that contain confidential information, trade secrets, or know-how relating to the System or the operation of a Smart Carpet Cleaning Business, all of which are acknowledged to be our sole and exclusive property;

20.1.4 You must immediately cease to use the confidential methods, procedures, and techniques associated with the System, the "SMART" name and mark, all other Marks, the Proprietary Materials, and all other distinctive forms, customer contracts, slogans, signs, symbols, websites, domain names, e-mail addresses, telephone numbers, other electronic identifiers, and devices associated with the Franchised Business or the System; withdraw all advertising matter (including electronic marketing);

remove the Marks from the Shop and administrative office and from clothing, signs, letterhead, materials, vehicles and other items owned or used by you in the operation of the Franchised Business; and acquire all such materials from your personnel. Except as provided in Section 20.2 below, you must not thereafter, directly or indirectly, represent yourself to the public or hold yourself out as a present or former franchisee of ours. If you fail to promptly make these alterations and modifications, then we will have the right (at your expense, to be paid upon your receipt of an invoice from us) to do so without being guilty of trespass or other tort.

20.1.5 You must immediately cease all communications with customers, provide to us copies of all customer contracts 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 customers and related business relationships.

20.1.6 You must promptly make such alterations and modifications to the Shop and administrative office as may be necessary to clearly distinguish each location from its former appearance as a Smart Carpet Cleaning Business and also make those specific additional changes as we may request in writing for that purpose. If you fail to promptly make these alterations and modifications, then we will have the right (at your expense, to be paid upon your receipt of an invoice from us) to do so without being guilty of trespass or other tort or claim against us.

20.1.7 You must take such action as may be necessary to cancel any assumed name registration or equivalent registration, and any e-mail address or domain name registration, obtained by you which contains "SMART" or any other Marks, and furnish evidence satisfactory to us of compliance with this obligation within five (5) days after termination or expiration of this Agreement. You hereby appoint us your attorney-in-fact to carry out the requirements of this Section 20.1.7, if you fail to do so within such five (5) day period.

20.1.8 You may not use any reproduction, counterfeit, copy, or colorable imitation of the Marks or the Proprietary Materials in connection with any other business which, in our sole discretion, is likely to cause confusion, mistake, or deception or to dilute our and our affiliates' rights in and to the Marks and the Proprietary Materials. You must not use any designation of origin or description or representation which, in our sole discretion, falsely suggests or represents an association or connection with us.

20.1.9 You must make a final transfer of all data related to the Franchised Business to us and you may not retain or use any such data.

20.1.10 You must immediately take whatever action we may require to transfer and assign to us or our designee all telephone numbers, directory listings and related advertisements associated with the Marks. You acknowledge that we have the sole rights to and interest in all telephone numbers and directory listings associated with any Mark, and you authorize us to direct the telephone company and all listing agencies to transfer all telephone numbers and directory listings to us or our designee. If you fail or refuse to do so, then the telephone company and all listing agencies may accept our direction as evidence of our exclusive rights in the telephone numbers and directory listings and our authority to direct the transfer. You agree to sign any written authorizations or pre-approved authorizations in the form prescribed by us directing the telephone company and any listing agencies to transfer all telephone numbers and directory listing to us or our designee upon the occurrence of any termination or expiration. You appoint us as your attorney-in-fact for this purpose. You acknowledge that this power is coupled with an interest, and is therefore irrevocable. You will use your best efforts to assist us and our designee in an orderly transfer of these matters.

20.1.11 You, your guarantors and all persons and entities subject to the covenants contained in Section 15 must continue to abide by those covenants and refrain from, directly or indirectly, taking any action that violates those covenants.

20.1.12 You must furnish to us, within thirty (30) days after the effective date of termination or expiration, evidence (certified to be true, complete, accurate and correct by your chief executive officer) satisfactory to us of your compliance with Sections 20.1.1 through 20.1.10.

20.2 Our Rights to Acquire the Shop Location and the Franchised Business Assets. Upon expiration or termination of this Agreement, at our option you must:

20.2.1 Facilitate our or our designee's conversations with customers to ensure an orderly transition of the Smart Carpet Cleaning Business operations.

20.2.2 If you have a commercial lease for the Shop or administrative office, assign to us your interest in the lease (or provide us with a commercially reasonable lease in the event you own the Shop or administrative office that is not located in a residence). If we elect not to exercise our option to acquire the lease, then you must make such modifications or alterations to the Shop and administrative office as may be necessary to comply with Section 20.1.6.

20.2.3 Sell to us such of the furnishings, equipment, vehicles, signs, and fixtures of the Franchised Business as we may designate, at fair market value, and such of the inventory and supplies of the Franchised Business as we may designate, at fair market wholesale value. If the parties cannot agree on the price of any such items within a reasonable time, then an independent appraiser will be appointed by us at our expense, and the appraiser's determination will be binding on both parties. If we exercise our option to purchase any items, then we will have the right to set off all amounts due from you against any payment for such items.

20.2.4 We may exercise our options under this Section 20.2: (a) anytime in the six (6) month period before the expiration of the Initial Term, in the case of expiration of this Agreement; and (b) at any time between the date of delivery of written notice of termination and thirty (30) days after the effective date of termination, in the case of termination of this Agreement. If we deem such action desirable in order to preserve the value of such options, then we may issue to you, and you must comply with, our written instructions to refrain from, delay, or reverse any of the actions required of you under Section 20.1.

20.3 Early Termination Damages

20.3.1 If you default on your obligations and we terminate this Agreement prior to the expiration of the Initial Term of this Agreement, it is hereby agreed by the parties that the amount of damages which we would incur for any such termination of this Agreement would be difficult, if not impossible, to accurately ascertain. Accordingly, within thirty (30) days following such termination, you and your owners shall pay to us an amount equal to the average monthly Royalty Fees and Brand Fund contributions, that you owed for the twelve (12) month period prior to termination (or, if the Franchised Business was open for less than twelve (12) months, then the average monthly Royalty Fees and Brand Fund contributions owed by you based on your annualized sales for the months that the Franchised Business was in operation) multiplied by the lesser of thirty-six (36) months or the number of months (including any partial month) remaining in the Initial Term of this Agreement. These early termination damages shall constitute liquidated damages and are not to be construed as a penalty and shall be the joint and several liability of you and your owners.

20.3.2 The parties acknowledge and agree that: (a) the early termination damages are a reasonable estimation of the damages that would be incurred by us resulting from or arising out of the premature termination of this Agreement; and (b) your payment of such early termination damages is intended to fully compensate us only for any and all damages related to or arising out of the premature termination of this Agreement by us, and shall not constitute an election of remedies, waiver of any default under this Agreement, nor waiver of our claim for other damages and/or equitable relief arising out of your breach of this Agreement. The imposition of early termination damages shall be at our option. We are not required to impose early termination damages and may, in addition or in lieu thereof, pursue other remedies available to us under the terms and conditions of this Agreement, in equity or at law in the event of your

default under this Agreement, including actual damages incurred by us, if such can be ascertained. All such remedies shall be cumulative and non-exclusive.

20.4 Our Costs and Expenses. You agree to pay us all damages, costs, and expenses (including reasonable attorneys' fees) we incur in obtaining injunctive, declaratory, or other relief to enforce this Section 20.

21 INDEPENDENT CONTRACTOR AND INDEMNIFICATION

21.1 Independent Contractor. This Agreement does not create a fiduciary relationship between you and us. You are an independent contractor, and nothing in this Agreement is intended to make either party an agent, legal representative, subsidiary, joint venturer, partner, employee, or servant of the other for any purpose whatsoever. While this Agreement is in effect, you must hold yourself out to the public as an independent contractor operating the Franchised Business pursuant to a franchise agreement from us. This Agreement does not authorize 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 be deemed liable as a result of any such action, nor will we be liable by reason of your act or omission in the operation of the Franchised Business, or for any claim or judgment arising therefrom against you or us.

21.2 Indemnification

21.2.1 You and your owners will defend, indemnify and hold harmless, us and our parent, affiliates, subsidiaries and their successors and assigns, and each of their respective direct and indirect owners, directors, officers, managers, employees, agents, attorneys, and representatives (collectively, "**Indemnified Parties**") from and against all Losses (as defined below) which any of the Indemnified Parties may suffer, sustain or incur as a result of a claim asserted or inquiry made formally or informally, or a legal action, investigation, or other proceeding brought by a third party and directly or indirectly arising out of your development and operation of the Franchised Business, your conduct of business under this Agreement, your breach of this Agreement or your noncompliance or alleged noncompliance with any law, ordinance, rule or regulation including any allegation that we or another Indemnified Party is a joint employer or otherwise responsible for your acts or omissions relating to your employees. We will promptly notify you of any claim that may give rise to a claim of indemnity hereunder, provided, however, that the failure to provide such notice will not release you from your indemnification obligations under this section except to the extent you are actually and materially prejudiced by such failure.

21.2.2 You will have the right, within fifteen (15) days after delivering written notice to the Indemnified Party in which you assume full responsibility for the Losses resulting from such claim, to assume and control the defense of such claim, including the employment of counsel reasonably satisfactory to the Indemnified Party, and to the payment of the fees and disbursements of such counsel. If (a) the Indemnified Party will have been advised by counsel that there are one or more legal or equitable defenses available to it that are different from or in addition to those available to you and, in the reasonable opinion of the Indemnified Party, your counsel could not adequately represent the interests of the Indemnified Party because such interests could be in conflict with your interests, or (b) you do not assume responsibility for such Losses in a timely manner or you fail to defend a claim with counsel reasonably satisfactory to the Indemnified Party as contemplated above, then the Indemnified Party will have the right to employ counsel of its own choosing, and you will pay the fees and disbursements of such Indemnified Party's counsel as incurred. In connection with any claim, the Indemnified Party or you, whichever is not assuming the defense of such claim, will have the right to participate in such claim and to retain its own counsel at such party's own expense.

21.2.3 You or the Indemnified Party (as the case may be) will keep you or the Indemnified Party (as the case may be) reasonably apprised of, and will respond to any reasonable requests concerning, the status of the defense of any claim and will cooperate in good faith with each other with respect to the defense of any such claim. You will not, without the prior written consent of the Indemnified Party: (a) settle or compromise any claim or consent to the entry of any judgment with respect to any claim which does not include a written release from liability of such claim for the Indemnified Party and its affiliates,

direct and indirect owners, directors, managers, employees, agents and representatives; or (b) settle or compromise any claim in any manner that may adversely affect the Indemnified Party other than as a result of money damages or other monetary payments which will be paid by you. No claim that is being defended in good faith by you in accordance with the terms of this section will be settled by the Indemnified Party without your prior written consent. Notwithstanding anything to the contrary herein, if a claim involves the Marks, then you agree that we will have the exclusive right to assume the defense of such claim, at your expense with counsel selected by us, but reasonably satisfactory to you.

21.2.4 You have no obligation to indemnify or hold harmless an Indemnified Party for any Losses to the extent they are determined in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction to have been caused solely and directly by the Indemnified Party's gross negligence, willful misconduct, or willful wrongful omissions.

21.2.5 For purposes of this Section 21.2, "**Losses**" include all obligations, liabilities, damages (actual, consequential, or otherwise), and defense costs that any Indemnified Party incurs. Defense costs include accountants', arbitrators', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation, arbitration, and alternative dispute resolution.

21.2.6 Your obligations in this Section 21.2 will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its Losses, in order to maintain and recover fully a claim against you under this Section 21.2. You agree that a failure to pursue a recovery or mitigate a Loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this Section 21.2.

22 APPROVAL AND WAIVERS

22.1 Approvals. Whenever this Agreement requires our prior approval, permission, or consent, you must make a timely, written request for approval to us, your request must include all information and documentation necessary for us to make a well-informed decision, and our approval, permission, or consent must be express, obtained in writing, and signed by one of our officers. We may condition, limit, deny and/or revoke all requests in our sole discretion at any time.

22.2 No Warranty. 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 to you in connection with this Agreement, or by reason of any neglect, delay, or denial of any request therefor.

22.3 No Implied Waiver. No delay or failure by us to exercise any right reserved to us under this Agreement or to insist upon strict compliance by you with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms hereof, will constitute a waiver of our right to exercise such right or to demand exact compliance by you with any of the terms hereof. Waiver by us of any particular default by you will not affect or impair our rights with respect to any subsequent default of the same, similar, or a different nature. Acceptance by us of any payments due to us hereunder will not be deemed to be a waiver by us of any preceding breach by you.

23 FORCE MAJEURE

If the performance of any obligation by any party under this Agreement is prevented, hindered or delayed by reason of any natural disaster, strike, lock out or other industrial disturbance, act or threat of terrorism, war (declared or undeclared), riot, epidemic, pandemic, fire or other catastrophe, act of any government or other third party and any other cause not within the control of the party affected thereby ("**Force Majeure**") that cannot be overcome by reasonable commercial measures, the parties shall be relieved of their respective obligations (to the extent that the parties, having exercised best efforts, are prevented, hindered or delayed in such performance) during the period of such Force Majeure. The party

whose performance is affected by an event of Force Majeure shall give prompt written notice of such Force Majeure event to the other party by setting forth the nature thereof and an estimate as to its duration. Your inability to obtain financing (regardless of the reason) shall not constitute Force Majeure.

24 NOTICES

All notices pursuant to this Agreement must be in writing and delivered in person or sent by personal delivery, by next day delivery service, by electronic mail with delivery receipt, or by certified mail, return receipt requested, to the respective parties at the addresses shown on the signature page of this Agreement (unless and until a different address has been designated by written notice to the other party). Any notices sent by personal delivery, next day delivery service or by electronic mail shall be deemed given on the next business day after transmittal. Any notices sent by certified mail shall be deemed given on the third business day after the date of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days prior written notice of such change to the other party. We may provide you with routine information, invoices, updates to the Manual, System standards and other System requirements and programs, including any modifications thereto, by regular mail or by electronic mail, or by making such information available to you on the internet, an extranet, or other electronic means.

25 ENTIRE AGREEMENT

The parties acknowledge that each element of this Agreement is essential and material and that, except as otherwise provided in this Agreement, the parties shall deal with each other in good faith. This Agreement, the Manual, the exhibits and the attachments to this Agreement (which are incorporated into this Agreement by this reference as though fully set forth herein), constitute the entire, full and complete agreement between the parties concerning your rights, and supersede any and all prior or contemporaneous negotiations, discussions, understandings or agreements. There are no other representations, inducements, promises, agreements, arrangements, or undertakings, oral or written, between the parties relating to the matters covered by this Agreement other than those set forth in this Agreement and in the attachments. No obligations or duties that contradict or are inconsistent with the express terms of this Agreement may be implied into this Agreement. Subject to our rights to modify the Manual, the System standards and the System, no amendment, change or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed in writing. Notwithstanding the foregoing, nothing in this Agreement is intended to disclaim any representation made in our Franchise Disclosure Document that we provided to you.

26 DISPUTES

26.1 Non-Binding Mediation. The parties agree that either party may submit any claim, controversy, or dispute arising out of this Agreement to non-binding mediation, provided the parties shall not be required to pursue mediation of any claim, controversy, or dispute as a prerequisite to filing a lawsuit or commencing other legal proceedings, and the pendency of a mediation shall not cause any legal proceedings to be stayed pending the outcome of the mediation. Any such non-binding mediation shall be conducted in the county in which our principal offices are located at the time the claim is submitted to mediation through either an individual mediator or a mediation services organization, provided the mediator shall be experienced in the mediation of franchise disputes and agreed upon by the parties.

26.2 Choice of Law. This Agreement and any claim or controversy arising out of, or relating to, rights and obligations of the parties under this Agreement and any other claim or controversy between the parties shall be governed by and construed in accordance with the laws of the State of Colorado without regard to conflicts of laws principles; provided that, nothing in this Section 26.2 is intended, or shall be deemed, to make any Colorado law regulating the offer or sale of franchises, or the franchise relationship, applicable to this Agreement if such law would not otherwise be applicable because you reside in, or your Franchised Business is located in, the State of Colorado.

26.3 Choice of Forum. The parties agree that, to the extent any disputes cannot be resolved directly between them, you must file any suit against us only in the federal or state court having jurisdiction

where our principal offices are located at the time suit is filed. We may file suit in the federal or state court located in the jurisdiction where our principal offices are located at the time suit is filed, in the jurisdiction where you reside or do business, where Territory is or was located, or where the claim arose. You consent to the personal jurisdiction of those courts over you and to venue in those courts.

26.4 Limitations of Actions. Except for payments owed by one party to the other, and unless prohibited by applicable law, any legal action or proceeding brought or instituted with respect to any dispute arising from or related to this Agreement (including the offer and sale of a franchise to you) or with respect to any breach of the terms of this Agreement must be brought or instituted within a period of two (2) years after the initial occurrence of any act or omission that is the basis of the legal action or proceeding, regardless of when the act or omission was discovered.

26.5 Reimbursement of Costs and Expenses. If either party brings an action to enforce this Agreement in a judicial proceeding, then the party prevailing in that proceeding shall be entitled to reimbursement of costs and expenses, including reasonable accountants', attorneys', attorneys' assistants' and expert witness fees, the cost of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether incurred prior to, during, in preparation for, or in contemplation of the filing of, the proceeding. If we utilize legal counsel (including in-house counsel employed by us) in connection with any failure by you to comply with this Agreement, then you shall reimburse us for any of the above-listed costs and expenses incurred by us. In any judicial proceeding, the amount of these costs and expenses will be determined by the court and not by a jury.

26.6 Rights of Parties are Cumulative. The parties' rights under this Agreement are cumulative, and the exercise or enforcement of any right or remedy under this Agreement will not preclude the exercise or enforcement by a party of any other right or remedy under this Agreement that it is entitled by law or this Agreement to exercise or enforce.

26.7 WAIVER OF PUNITIVE DAMAGES, CLASS ACTION LAWSUITS AND JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY LAW, EACH PARTY WAIVES ANY RIGHT TO, OR CLAIM FOR, ANY CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER PARTY. THE PARTIES ALSO AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN THEM, THE PARTY MAKING A CLAIM WILL BE LIMITED TO RECOVERY OF ACTUAL DAMAGES, IF ANY. IN ADDITION, THE PARTIES IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO BRING, OR BE A CLASS MEMBER IN, ANY CLASS ACTION SUITS AND THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, AND/OR COUNTERCLAIM BROUGHT BY EITHER PARTY.

26.8 Injunctive Relief. You recognize that your failure to comply with the terms of this Agreement, including the failure to comply fully with all post-termination obligations, is likely to cause irreparable harm to us, our affiliates and the System. Therefore, you agree that, in the event of a breach or threatened breach of any of the terms of this Agreement by you, we shall be entitled to injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance without showing or proving actual damages and without posting any bond or security. Any equitable remedies sought by us shall be in addition to, and not in lieu of, all remedies and rights that we otherwise may have arising under applicable law or by virtue of any breach of this Agreement.

27 SEVERABILITY AND CONSTRUCTION

27.1 Severability. If any provision of this Agreement is determined to be invalid or in conflict with any existing or future law or regulation by a court or agency having valid jurisdiction, then the invalidity will not impair the operation of any other provisions which remain otherwise intelligible. The latter will continue to be given full force and effect, and the invalid provisions will be deemed not to be a part of this Agreement.

27.2 Construction. In this Agreement, the words "include", "includes", and "including" shall be deemed to be followed by the phrase "without limitation".

27.3 Counterparts. This Agreement may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original and all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by electronic transmission (including an electronic signature platform or the transmission of a scanned PDF document) shall be effective as delivery of a manually executed counterpart of this Agreement.

27.4 Gender and Number. All references to gender and number shall be construed to include such other gender and number as the context may require.

27.5 Captions. All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision of this Agreement.

27.6 Time. Time is of the essence of this Agreement for each provision in which time is a factor. Whenever this Agreement refers to a period of days or months, the first day or month to be counted shall be the day or month of the designated action, event or notice. Days shall be measured by calendar days, except that if the last day of a period is a weekend or a national holiday, then the period automatically shall be extended to the next day that is not a weekend or a national holiday.

27.7 Survival of Obligations. All obligations that 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.

27.8 No Implied Third Party Beneficiaries. Except as explicitly provided to the contrary herein, nothing in this Agreement is intended or will be deemed to confer any rights or remedies on any person or legal entity other than you, your owners, us, and our affiliates.

27.9 References. Each reference in this Agreement to an entity shall be deemed to refer to a corporation, partnership, limited liability company and any other entity or organization similar thereto, if applicable. Each reference to the organizational documents, owners, directors, and officers of a corporation in this Agreement shall be deemed to refer to the functional equivalents of such organizational documents, owners, directors, and officers, as applicable, in the case of any other entity or organization similar thereto, if applicable.

27.10 Lesser Included Obligations. You agree to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement, that may result from (a) striking any portion of a provision that a court or agency may hold to be unreasonable and unenforceable; or (b) reducing the scope of any promise or covenant to the extent required to comply with a court or agency order.

27.11 Best Interests of System. Whenever we exercise a right and/or discretion to take or withhold an action, or to grant or decline to grant you a right to take or withhold an action, except as otherwise expressly provided in this Agreement, we can make our decision or exercise our discretion on the basis of our judgment of what is in our best interests. "Best interests" includes what we believe to be the best interests of the System at the time the decision is made or the right or discretion is exercised, even though (a) there may have been other 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 and/or to any Smart Carpet Cleaning Businesses that we or our affiliates operate. 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 covenant of good faith and fair dealing in this Agreement, then we and you agree that the covenant will not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement.

28 REPRESENTATIONS AND ACKNOWLEDGMENTS

28.1 Our Agreements with Third Parties. We have entered, and will continue to enter, into agreements with other franchisees to operate Smart Carpet Cleaning Businesses. The manner in which we enforce our rights and the franchisees' obligations under any of those other agreements shall not affect our ability to enforce our rights or your obligations under this Agreement.

28.2 System Modifications. We may change or modify the System, from time to time, including the Manual, and you will be required to make such expenditures as such changes or modifications in the System may require.

28.3 Franchise Application. All information that you provided to us in connection with your franchise application and our grant of this Franchise is truthful, complete and accurate.

28.4 Signatories to this Agreement. The persons signing this Agreement on your behalf have full authority to enter into this Agreement and the other agreements contemplated by the parties. Your execution of this Agreement or such other agreements does not and will not conflict or interfere with, directly or indirectly, intentionally or otherwise, with the terms of any other agreement with any other third party to which you or any of your owners is a party.

28.5 No Actual or Apparent Authority. Even though this Agreement contains provisions requiring you to operate the Franchised Business in compliance with the System: (a) we and our affiliates do not have actual or apparent authority to control the day-to-day conduct and operation of your business or employment decisions; and (b) the parties do not intend for us or our affiliates to incur any liability in connection with or arising from any aspect of the System or your use of the System, whether or not in accordance with the requirements of the Manual, except with respect to any liability arising from our gross negligence or willful misconduct.

[Signature Page Follows.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the Effective Date.

FRANCHISOR:

SMART FRANCHISE LLC,
a Colorado limited liability company

By: _____

Print Name: _____

Title: _____

EFFECTIVE DATE: _____

Notice Address:

2008 Meander Road
Windsor, CO 80550
Attn: Chief Executive Officer

FRANCHISEE: If a corporation, partnership, or limited liability company, print name of business entity on the line below:

By: _____

Print Name: _____

Title: _____

Date: _____

Notice Address: _____

If Franchisee is one or more individuals:

(Print Name) _____

Date: _____

(Print Name) _____

Date: _____

Notice Address: _____

EXHIBIT A TO SMART CARPET CLEANING FRANCHISE AGREEMENT

FRANCHISE INFORMATION

Franchisee: _____

Administrative Office Location: _____

Shop Location: _____

Territory: _____

Initial Franchise Fee: _____

[Calculated as a base of \$34,000 for a Territory with a population of up to 200,000 plus \$500 for each additional 1,000 people.]

Minimum Insurance Requirements as of the Effective Date:

TYPE OF INSURANCE POLICY	COVERAGE REQUIREMENTS
Commercial General Liability	\$1,000,000 per occurrence limit
Automobile Liability	\$1,000,000 per occurrence limit
Workers' Compensation	Required by statute or rule of the state where your Franchised Business is located, provided that you may not elect any option that may be available under state law to exclude or exempt any owner from workers' compensation
Property	\$100,000 All "risk" property damage insurance for the full replacement cost of property that you own, rent, borrow or lease for the conduct or operation of the Franchised Business
Medical Expenses	\$10,000
Personal and Advertising Injury	\$1,000,000 per occurrence \$2,000,000 general aggregate
Products Liability	\$2,000,000 general aggregate

EXHIBIT B TO SMART CARPET CLEANING FRANCHISE AGREEMENT

OWNERSHIP INTERESTS

Franchisee: _____

Form of Ownership. Franchisee is a _____(type of entity) incorporated or formed on _____ in the state of _____.

Owners. The following list includes the full name of each person who is an owner of a legal or beneficial interest in Franchisee, and fully describes the nature of each owner's interest (attach additional pages if necessary).

Name	Home Address	Percentage of Ownership Interest

If Franchisee consists of individuals, delete the above and use the below:

Franchisee Names and Home Addresses:

Name	Home Address

Managing Owner. Franchisee's Managing Owner is: _____

FRANCHISEE: _____

By: _____

Print name: _____

Title: _____

Date: _____

EXHIBIT C TO SMART CARPET CLEANING FRANCHISE AGREEMENT

GUARANTEE AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the Smart Carpet Cleaning Franchise Agreement dated as of _____ (“**Agreement**”) by Smart Franchise LLC (“**Franchisor**”), entered into with _____ (“**Franchisee**”), the undersigned (“**Guarantors**”), each of whom is an owner, officer, director, or member of Franchisee, or the spouse thereof, hereby personally and unconditionally agree as follows:

1. Guarantee To Be Bound By Certain Obligations. Guarantors hereby personally and unconditionally guarantee to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement or at law or in equity, that each will be personally bound by the covenants and restrictions contained in Section 15 (Covenants) of the Agreement.

2. Guarantee and Assumption of Franchisee's Obligations. Guarantors hereby: (a) guarantee to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement or at law or in equity, that Franchisee and any assignee of Franchisee's interest under the Agreement shall: (a) punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement, and (b) punctually pay all other monies owed to Franchisor and/or its affiliates; (b) agree to be personally bound by each and every provision in the Agreement, including, without limitation, the provisions of Sections 15 (Covenants) and 21.2 (Indemnification); and (c) agree to be personally liable for the breach of each and every provision in the Agreement.

3. General Terms and Conditions. The following general terms and conditions shall apply to this Guarantee:

Each of the undersigned waives: (a) acceptance and notice of acceptance by Franchisor 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 s/he may have to require that an action be brought against Franchisee or any other person as a condition of liability; (e) all rights to payments and claims for reimbursement or subrogation which any of the undersigned may have against Franchisee arising as a result of the execution of and performance under this Guarantee by the undersigned; (f) any law or statute which requires that Franchisor make demand upon, assert claims against or collect from Franchisee or any others, foreclose any security interest, sell collateral, exhaust any remedies or take any other action against Franchisee or any others prior to making any demand upon, collecting from or taking any action against the undersigned with respect to this Guarantee; (g) any and all other notices and legal or equitable defenses to which s/he may be entitled; and (h) any and all right to have any legal action under this Guarantee decided by a jury.

Each of the undersigned consents and agrees that: (a) her/his direct and immediate liability under this Guarantee shall be joint and several; (b) s/he shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (c) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; (d) such liability shall not be diminished, relieved or otherwise affected by any amendment of the Agreement, any extension of time, credit or other indulgence which Franchisor may from time to time grant to Franchisee 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 Agreement and for so long thereafter as there are monies or obligations owing from Franchisee to Franchisor or its affiliates under the Agreement; and (e) monies received from any source by Franchisor for application toward payment of the obligations under the Agreement and under this Guarantee may be applied in any manner or order deemed appropriate by Franchisor. In addition, if any of the undersigned ceases to be a member of the Continuity Group, an owner, officer or director of Franchisee, then that person (and his/her spouse, if the spouse is also a guarantor) agrees that the obligations under this Guarantee shall continue to remain in force and

effect unless Franchisor in its sole discretion, in writing, releases those person(s) from this Guarantee. Notwithstanding the provisions of the previous sentence, unless prohibited by applicable law, the obligations contained in Section 15.2 (Restrictions on Competition) of the Agreement shall remain in force and effect for a period of two (2) years after any such release by Franchisor. A release by Franchisor of any of the undersigned shall not affect the obligations of any other Guarantor.

If Franchisor 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 Franchisor utilizes legal counsel (including, but not limited to, in-house counsel employed by Franchisor or its affiliates) in connection with any failure by the undersigned to comply with this Guarantee, the undersigned shall reimburse Franchisor for any of the above-listed costs and expenses incurred by it.

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 dissolution of, termination of existence of, loss of good standing status by, 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 of the undersigned; 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 of the undersigned. If a Default occurs, then the obligations of the undersigned shall be due immediately and payable without notice. Upon the death of one of the undersigned, the estate shall be bound by this Guarantee for all obligations existing at the time of death. The obligations of the surviving Guarantors shall continue in full force and effect.

This Guarantee shall inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. Franchisor's interests in and rights under this Guarantee are freely assignable, in whole or in part, by Franchisor. Any assignment shall not release the undersigned from this Guarantee.

Section 26 (Disputes) of the Agreement is incorporated by reference into this Guarantee and all capitalized terms that are not defined in this Guarantee shall have the meaning given them in the Agreement.

[Signatures follow on next page.]

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature, under seal.

GUARANTORS:

Date: _____

Print Name: _____
Address: _____

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EXHIBIT F

TRAINING PARTICIPATION AND NON-DISCLOSURE AGREEMENT

TRAINING PARTICIPATION AND NONDISCLOSURE AGREEMENT

THIS AGREEMENT is made as of the date set forth on the last page of this Agreement by _____ (“Participant”) in favor of and for the benefit of Smart Franchising, LLC (“Franchisor”).

1. Purpose

Participant, who is an employee and/or owner of a Smart Carpet Cleaning Business franchisee (the “Franchisee”), will attend and participate in training offered by Franchisor concerning the methods, techniques, and systems associated with operating a Smart Carpet Cleaning Business (the “Training Program”). This Agreement addresses the confidential nature of the information that will be divulged to Participant in the Training Program.

Participant agrees that in exchange for being permitted to attend and participate in the Training Program, s/he will abide by the terms of this Agreement.

2. Confidential Information

A. Participant understands that during the Training Program and the course of her/his association with the Franchisee, Participant may be provided with or otherwise have access to non-public information that Franchisor considers to be of a confidential, proprietary, or trade secret nature. Among other things, this confidential, proprietary, and/or trade secret information may include details regarding Franchisor’s business plan and related systems and processes, as well as other financial, business, and technical information, marketing, engineering and other plans, financial statements and projections, customer and supplier information, research, designs, plans, compilations, methods, techniques, processes, procedures, and know-how of Franchisor, whether in tangible or intangible form, and whether or not stored, compiled or memorialized physically, electronically, graphically, photographically, or in writing (together, all of the above are deemed to be “Confidential Information”).

B. Participant agrees to treat all of the Confidential Information in a private and confidential manner. Participant agrees to maintain the privacy of the Confidential Information in a manner that is no less protective of that information than other private information concerning Participant, the Franchisee’s business, and other similar sensitive information.

C. Participant agrees not to sell, transfer, publish, disclose, or otherwise use or make available any portion of the Confidential Information to third parties (except to employees of the Franchisee who clearly have a need-to-know the Confidential Information solely for the purpose of operating Franchisee’s Smart Carpet Cleaning Business).

D. Participant understands and agrees that Franchisor owns all of the Confidential Information. Participant also understands and agrees that the Confidential Information may only be used for the specific purposes expressly authorized by this Agreement.

E. Participant understands and agrees that Franchisor is not granting to Participant any license to use Franchisor’s intellectual property (for example, patents, trademarks, copyrights, domain names, and trade dress).

F. Upon the termination or expiration of this Agreement, or at Franchisor’s request, Participant agrees to promptly destroy all of its copies of Confidential Information in its possession, or at Franchisor’s request, to return the Confidential Information to Franchisor (in accordance with Franchisor’s instructions).

3. General Terms.

A. Section headings in this Agreement are for reference only and shall not be construed as modifying any provisions of this Agreement.

B. This Agreement is the entire agreement between the parties concerning the subject matter and supersedes any prior agreements concerning the subject matter hereof. No amendment or modification of this Agreement shall be valid or binding on the parties unless made in a mutually executed writing.

C. The term of this Agreement shall be for: (i) the entire length of time that Participant is associated with Franchisee; and (ii) for an additional period of three (3) years after that association ends.

D. If any part of this Agreement is not valid or unenforceable, that shall not affect the validity or enforceability of the rest of this Agreement. Instead, the invalid or unenforceable provision shall be deemed to be amended to the minimum extent necessary to render it enforceable under applicable law while retaining to the maximum extent possible the intent and economic benefit of the original provision consistent with applicable law.

E. No delay or omission by Franchisor in exercising any right under this Agreement will operate as a waiver of that or any other right.

F. This Agreement is governed by and will be construed exclusively in accordance with the laws of the State of Colorado (without regard to Colorado conflicts of law principles).

G. The parties agree that all disputes arising under this Agreement will be heard only in the federal or state courts in the state in which Franchisor has its principal place of business at the time any proceeding relating to such matter is filed. The parties consent to venue in the county where the principal place of business of Franchisor is then located, and irrevocably and unconditionally waive any rights they may have to assert jurisdiction or venue in any other court, administrative forum, or other adjudicative body.

H. Participant acknowledges and agrees that its breach of this Agreement may cause irreparable injury to Franchisor, and that Franchisor may seek and obtain injunctive and other equitable relief against such breach.

I. Participant and Franchisee understands and agrees that Participant is not (and shall not be deemed to be) employed by Franchisor, and both Participant and Franchisee agree that they will not claim otherwise.

J. This Agreement may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original and all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by electronic transmission (including an electronic signature platform such as DocuSign or the transmission of a scanned PDF document) shall be effective as delivery of a manually executed counterpart of this Addendum.

[Signature Page Follows.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date noted below.

FRANCHISOR:

SMART FRANCHISING, LLC,
a Colorado limited liability company

By: _____
Print Name: _____
Title: _____
Effective Date: _____

PARTICIPANT:

By: _____
Resident of: _____

EXHIBIT G
LIST OF FRANCHISEES

LIST OF FRANCHISEES

FRANCHISED BUSINESSES IN OPERATION AS OF DECEMBER 31, 2023

Franchisee Entity Name and Contact Person	Office Address	City	State	Zip Code	Telephone Number
J Engel Enterprises Inc.* Jeff Engel	209 E Loveland Avenue	Loveland	OH	45140	513-277-9699

*This Franchised Business closed in January 2024.

**LIST OF FRANCHISEES WHO SIGNED A FRANCHISE AGREEMENT
BUT WERE NOT YET OPERATIONAL AS OF AS OF DECEMBER 31, 2023**

None

LIST OF FORMER FRANCHISEES

The following franchisees had a Franchised Business terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during the fiscal year ended December 31, 2023:

None

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

EXHIBIT H
FINANCIAL STATEMENTS

Smart Franchise, LLC
Financial Statements and Independent
Auditor's Report
December 31, 2023 and 2022

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Independent Auditor's Report

To the Members
Smart Franchise, LLC
Windsor, CO 80550

Opinion

We have audited the accompanying financial statements of Smart Franchise, LLC (the "Company") (a Colorado limited liability company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in members' (deficit) equity, and cash flows for the years then ended December 31, 2023 and 2022, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smart Franchise, LLC as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Smart Franchise, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 5 to the financial statements, the Company is still in its early stage and has yet to generate revenue sufficient to create positive cash flows and will most likely be dependent on future member contributions or loans in order to execute its business plan. Management's evaluation of the events and conditions and managements plans regarding these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion in not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Smart Franchise, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Smart Franchise, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Smart Franchise, LLC's ability to continue as a going concern for a reasonable period of time.

To the Members
Smart Franchise, LLC
Page 3

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Andrew Burk + Associates P.C.

Fort Collins, Colorado
January 29, 2024

Smart Franchise, LLC
Balance Sheets
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash	\$ 138,107	\$ 56,284
Accounts receivable, net	<u>1,100</u>	<u>-</u>
Total current assets	<u>139,207</u>	<u>56,284</u>
Other long-term assets		
Trademark	<u>3,145</u>	<u>3,145</u>
Total assets	<u>\$ 142,352</u>	<u>\$ 59,429</u>
Liabilities and Members' (Deficit)		
Current liabilities		
Related party notes payable	\$ 500,000	\$ 200,000
Credit card payable	1,011	5,500
Related party interest payable	14,500	4,500
Deferred revenue	<u>29,600</u>	<u>-</u>
Total current liabilities	<u>545,111</u>	<u>210,000</u>
Members' (deficit)	<u>(402,759)</u>	<u>(150,571)</u>
Total liabilities and members' (deficit)	<u>\$ 142,352</u>	<u>\$ 59,429</u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Operations
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue, net	\$ <u>8,310</u>	\$ <u>-</u>
Operating expenses		
Contract labor	165,600	147,200
Marketing	61,439	34,950
Professional fees	21,163	71,103
Office expenses	<u>2,296</u>	<u>8,427</u>
Total operating expenses	<u>250,498</u>	<u>261,680</u>
Operating (loss)	<u>(242,188)</u>	<u>(261,680)</u>
Other (expense)		
Interest expense	<u>(10,000)</u>	<u>(4,500)</u>
Net (loss)	<u><u>\$ (252,188)</u></u>	<u><u>\$ (266,180)</u></u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Members' (Deficit) Equity
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Members' (deficit) equity, beginning of year	\$ (150,571)	\$ 115,609
Net (loss)	<u>(252,188)</u>	<u>(266,180)</u>
Members' (deficit), end of year	<u>\$ (402,759)</u>	<u>\$ (150,571)</u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net (loss)	\$ (252,188)	\$ (266,180)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Accounts receivable	(1,100)	-
Credit card payable	(4,489)	5,500
Interest payable	10,000	4,500
Deferred revenue	<u>29,600</u>	<u>-</u>
Net cash (used in) operating activities	<u>(218,177)</u>	<u>(256,180)</u>
Cash flow from financing activities:		
Proceeds from related party note payable	<u>300,000</u>	<u>100,000</u>
Net cash provided by financing activities	<u>300,000</u>	<u>100,000</u>
Net change in cash during the year	81,823	(156,180)
Cash, beginning of year	<u>56,284</u>	<u>212,464</u>
Cash, end of year	<u>\$ 138,107</u>	<u>\$ 56,284</u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Smart Franchise, LLC, ("the Company"), conform to the accounting principles generally accepted in the United States of America. The following summary of accounting policies is presented to assist the reader in evaluating the Company's financial statements.

Business Activity - The Company is a limited liability company organized under the laws of the state of Colorado. The Company developed a low water carpet cleaning system using proprietary soil transfer technology processes, cleaning solutions and procedures that are environmentally friendly. The Company provides franchise opportunities to its customers to establish and operate a franchised business under Smart Carpet Cleaning ("Smart Carpet"). The Company focuses on marketing and continued development of the Company's planned franchise operations.

Basis of Accounting - The Company maintains its accounting records on the accrual basis of accounting. This method is based on the matching concept of accounting principles generally accepted in the United States of America. As a result, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents - For purposes of the balance sheets and reporting cash flows, cash and cash equivalents include all bank accounts of the Company that have maturities of three months or less.

Accounts Receivable and the Allowance for Credit Losses - Accounts receivable primarily consists of franchise receivables. The Company reduces the carrying amount of accounts receivable by an allowance for credit losses that reflects management's best estimate of the amounts that will not be collected. The Company individually reviews each franchise customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on management assessment of the franchise customer's current creditworthiness, management estimates the portion, if any, of the balance that will not be collected. The Company writes off receivables as a charge to the allowance for credit losses when it is probable that the receivable is worthless. Management determined no allowance was necessary as of December 31, 2023 or 2022.

Intangible Assets - Certain intangible assets are determined to have an indefinite useful life and are not amortized, but instead tested for impairment at least annually. The Company capitalized certain costs incurred to obtain the trademark which is included in the accompanying balance sheets as of December 31, 2023 and 2022. The Company determined there was no impairment for the years ended December 31, 2023 and 2022.

The Company will continue to evaluate the trademark for potential impairment based on any changes to the Company's operations or its operating business environment.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition - The Company earns revenues through franchise revenue which is recognized in accordance with Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” (Topic 606). Under ASU 2014-09, revenue is recognized upon the transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive for those services or goods.

The Company developed a proprietary system to provide environmentally friendly and low water carpet cleaning services which it plans to franchise through its operating businesses, Smart Carpet. The terms of the franchise are documented in a franchise agreement. The franchise agreement between the Company as the franchisor and the customer as a franchisee requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead generally represent a single performance obligation, which is the transfer of the franchise license. The intellectual property subject to the franchise license is symbolic intellectual property as it does not have significant stand-alone functionality, and substantially all of its utility is derived from its association with the Company’s ongoing activities. The nature of the Company’s promise in granting the franchise license is to provide the franchisee with access to the brand’s intellectual property over the term of the license.

In January 2021, the Financial Accounting Standards Board (“FASB”) issued ASU 2021-02, “*Franchisors – Revenue from Contracts with Customers*” (Subtopic 952-606), which introduced a practical expedient for nonpublic business entities that simplifies the application of guidance about identifying performance obligations related to pre-opening services. In addition to the franchise fees listed below, the franchise agreement calls for various pre-opening services such as training. The Company adopted the practical expedient and determined it has two performance obligations – a franchise license and pre-opening services. Because no franchise licenses were sold before its inception on March 20, 2021, there was no modified retrospective transition or full retrospective transition to apply.

The transaction price in the standard franchise agreement consists of i) an initial franchise fee; ii) continuing franchise fees (royalties); iii) a monthly brand fund contribution fee; and iv) a technology fee, as defined in the franchise agreement. The Company considers the licensing of the franchising right to be a single performance obligation and accordingly, no allocation of the transaction price is required. Additionally, the franchise agreement requires franchisees to purchase all required equipment, technology, and inventory.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued) - The Company recognizes revenue as follows:

- Franchise fees are recognized as revenues ratably on a straight-line basis over the term of the franchise agreement generally commencing on the date the franchise opened for business. Cash received at the beginning of the franchise term is recorded as a contract liability and recognized as revenue over time.
- Royalty fees entitled by the Company are earned based on 6% of the franchise business gross sales, as defined by the franchise agreement. Royalty revenues are recognized when the franchisee's reported sales occur. Depending on the timing, the recognition of revenue results in either a contract asset (unbilled receivable) or, once billed, accounts receivable, on the Company's balance sheet.
- The brand funding and technology fees are recognized monthly and payable to the Company in the same manner as the royalty fees. Brand funding revenue is earned based on 2% of gross sales. Technology fee revenue is earned at a flat fee of \$290 per month.

Pre-opening Costs - Pre-opening costs, including wages, benefits, travel, and other costs are expensed as incurred prior to the Smart Franchise location opening for business.

Advertising and Marketing Costs - Advertising and marketing costs are expensed as incurred.

Limited Liability Company - The Company is a Colorado Limited Liability Company, which provides limited liability for its members.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Financial Instruments - The Company's financial instruments consist of cash and accounts receivable. The carrying amounts of cash and accounts receivable approximate their respective fair values because of the short-term maturity or expected settlement dates of these instruments.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies (continued)

Financial Instruments - Credit Losses - On January 1, 2023, the Corporation adopted ASU 2016-13, "*Financial Instruments — Measurement of Credit Losses on Financial Instruments*," which requires the measurement of the allowance for credit losses to be based on management's best estimate of lifetime expected credit losses ("ECL") inherent in the Corporation's relevant financial assets. Upon adoption of the standard on January 1, 2023, there was no significant impact on the financial statements and no amounts recorded to the allowance for credit losses.

Concentration of Credit Risk - The Company's operations are concentrated in the carpet cleaning industry in Colorado. As such, the Company's operations are concentrated wholly in this industry. Accounts receivable are derived from revenues earned from its franchisees. The Company believes that its contract acceptance, billing and collection policies are adequate to minimize potential credit risk.

The Company maintains a cash account which, at times, may exceed the federally insured limit. Federal Deposit Insurance Corporation ("FDIC") insures accounts up to \$250,000. For the years ended December 31, 2023 and 2022, there were no cash balances exceeding the federally insured limit.

Note 2 - Related Party Note Payable

The Company regularly enters into promissory note agreements with a member of the Company. The promissory notes have a combined original principal balance of \$500,000 and bear interest of 3% per annum. All unpaid principal and interest is due when adequate revenues are achieved which will ultimately be determined by the members in all notes. Due to the inherent uncertainty of when and how adequate revenues are determined, the Company classified the related party notes payable as a current liability on the accompanying balance sheet in accordance with ASC 470-10-45-10, "*Due on Demand Loan Arrangements*." The principal balances on the related party notes payable were \$500,000 and \$200,000 as of December 31, 2023 and 2022, respectively.

Note 3 - Income Taxes

The Company is a limited liability company and is not subject to federal income tax. The members are taxed on their share of the Company's taxable income. Accordingly, no provision or liability for federal or state income taxes has been included in the accompanying financial statement.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2023 and 2022

Note 4 - Related Party Transactions

On May 1, 2022, the Company entered into a general contract for services agreement with Smart Carpet Care, LLC, an entity related through common ownership effective April 10, 2022 through December 31, 2022. On April 1, 2023 the services agreement was renewed effective through December 31, 2023. The Company received employment services in the amount of \$18,400 per month. Amounts paid to Smart Carpet Care, LLC totaled \$165,600 and \$147,200 for the years ended December 31, 2023 and 2022, respectively. There are no amounts due to related parties as of December 31, 2023 and 2022. The services agreement was subsequently renewed (Note 6).

The Company utilizes space for franchisee training related to a lease agreement entered into by Smart Carpet Care, LLC. No rent expense was charged to the statement of operations for the years ended December 31, 2023 and 2022.

Note 5 - Going Concern

The Company has incurred cumulative losses of approximately \$550,000 through December 31, 2023, which raises substantial doubt about the Company's ability to continue as a going concern. The Company is still in its early stage and has yet to generate revenues sufficient to create positive cash flows and will most likely be dependent upon future member contributions or loans; however, there can be no assurance that the Company will be successful in achieving its objectives.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Note 6 - Subsequent Events

The Company has evaluated all subsequent events through January 29, 2024, the date the financial statements were available to be issued, and determined no events or transactions which would impact the financial statements for the year ended December 31, 2023 except as follows:

On January 1, 2024, the general contract for services agreement with Smart Carpet Care, LLC was renewed effective through December 31, 2024.

Smart Franchise, LLC
Financial Statements and Independent
Auditor's Report
December 31, 2022 and 2021

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Independent Auditor's Report

To the Members
Smart Franchise, LLC
Windsor, CO 80550

Opinion

We have audited the accompanying financial statements of Smart Franchise, LLC (the "Company") (a Colorado limited liability company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in members' equity, and cash flows for the year ended December 31, 2022, and for the period from March 20, 2021 (Inception) through December 31, 2021, respectively, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smart Franchise, LLC as of December 31, 2022, and for the period from March 20, 2021 (Inception) through December 31, 2021, the results of its operations and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Smart Franchise, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company is still in its early stage and has yet to generate revenue sufficient to create positive cash flows and will most likely be dependent on future member contributions or loans in order to execute its business plan. Management's evaluation of the events and conditions and managements plans regarding these matters are also described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion in not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Smart Franchise, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Smart Franchise, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Smart Franchise, LLC's ability to continue as a going concern for a reasonable period of time.

To the Members
Smart Franchise, LLC
Page 3

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Andrew Burk + Associates P.C.

Fort Collins, Colorado
February 1, 2023

Smart Franchise, LLC
Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash	\$ <u>56,284</u>	\$ <u>212,464</u>
Other long-term assets		
Trademark	<u>3,145</u>	<u>3,145</u>
Total assets	\$ <u><u>59,429</u></u>	\$ <u><u>215,609</u></u>
Liabilities and Members' Equity		
Current liabilities		
Related party notes payable	\$ 200,000	\$ 100,000
Credit card payable	5,500	-
Interest payable	<u>4,500</u>	<u>-</u>
Total current liabilities	<u>210,000</u>	<u>100,000</u>
Members' (deficit) equity	<u>(150,571)</u>	<u>115,609</u>
Total liabilities and members' equity	\$ <u><u>59,429</u></u>	\$ <u><u>215,609</u></u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Operations
For the Year Ended December 31, 2022 and period from March 20, 2021 (Inception)
through December 31, 2021

	<u>2022</u>	<u>2021</u>
Revenue, net	\$ <u>-</u>	\$ <u>-</u>
Operating expenses		
Contract labor	147,200	-
Professional fees	71,103	34,256
Marketing	34,950	-
Office expenses	8,427	35
Memberships and Licenses	<u>-</u>	<u>100</u>
Total operating expenses	<u>261,680</u>	<u>34,391</u>
Operating (loss)	<u>(261,680)</u>	<u>(34,391)</u>
Other (expense)		
Interest expense	<u>(4,500)</u>	<u>-</u>
Net (loss)	<u><u>\$ (266,180)</u></u>	<u><u>\$ (34,391)</u></u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Members' Equity
For the Year Ended December 31, 2022 and period from March 20, 2021 (Inception)
through December 31, 2021

	<u>2022</u>	<u>2021</u>
Members' equity, beginning of year	\$ 115,609	\$ -
Contributions	-	150,000
Net (loss)	<u>(266,180)</u>	<u>(34,391)</u>
Members' (deficit) equity, end of year	<u>\$ (150,571)</u>	<u>\$ 115,609</u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Statements of Cash Flows
For the Year Ended December 31, 2022 and period from March 20, 2021 (Inception)
through December 31, 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net (loss)	\$ <u>(266,180)</u>	\$ <u>(34,391)</u>
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Credit card payable	5,500	-
Interest payable	<u>4,500</u>	<u>-</u>
Net cash (used in) operating activities	<u>(256,180)</u>	<u>(34,391)</u>
Cash flows from investing activities:		
Purchase of trademark	<u>-</u>	<u>(3,145)</u>
Net cash (used in) investing activities	<u>-</u>	<u>(3,145)</u>
Cash flow from financing activities:		
Proceeds from related party note payable	100,000	100,000
Member contributions	<u>-</u>	<u>150,000</u>
Net cash provided by financing activities	<u>100,000</u>	<u>250,000</u>
Net change in cash during the year	(156,180)	212,464
Cash, beginning of year	<u>212,464</u>	<u>-</u>
Cash, end of year	<u>\$ 56,284</u>	<u>\$ 212,464</u>

See accompanying notes to the financial statements and independent auditor's report.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Smart Franchise, LLC, ("the Company"), conform to the accounting principles generally accepted in the United States of America. The following summary of accounting policies is presented to assist the reader in evaluating the Company's financial statements.

Business Activity - The Company is a limited liability company organized under the laws of the state of Colorado. The Company developed a low water carpet cleaning system using proprietary soil transfer technology processes, cleaning solutions and procedures that is environmentally friendly. The Company's intent is to provide franchise opportunities to its customers to establish and operate a franchised business under Smart Carpet Cleaning ("Smart Carpet").

The Company has not yet commenced principal operations and has incurred expenses related to its corporate formation, franchise systems evaluation, and franchise disclosure document. Once the Company's planned principal operations commence, it will focus on marketing and continued development of the Company's planned franchise operations.

Basis of Accounting - The Company maintains its accounting records on the accrual basis of accounting. This method is based on the matching concept of accounting principles generally accepted in the United States of America. As a result, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents - For purposes of the balance sheet and cash flow statement, cash and cash equivalents include all bank accounts of the Company that have maturities of three months or less.

Accounts Receivable - Going forward, accounts receivable will primarily consist of franchise receivables. The Company will estimate an allowance for doubtful accounts based upon historical collections and credit risk of the franchise customer. As of December 31, 2022 or 2021, there were no active franchisees and accordingly, no accounts receivable or allowance for doubtful accounts.

Intangible Assets - Certain intangible assets are determined to have an indefinite useful life and are not amortized, but instead tested for impairment at least annually. The Company capitalized certain costs incurred to obtain the trademark which is included in the accompanying balance sheets as of December 31, 2022 and 2021. The Company determined there was no impairment for the year ended December 31, 2022 and for the period from March 20, 2021 (Inception) through December 31, 2021, respectively.

The Company will continue to evaluate the trademark for potential impairment based on any changes to the Company's operations or its operating business environment.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition - The Company, formed in March of 2021, will earn revenues through franchise revenue which will be recognized in accordance with Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” (Topic 606). Under ASU 2014-09, revenue is recognized upon the transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive for those services or goods.

The Company developed a proprietary system to provide environmentally friendly and low water carpet cleaning services which it plans to franchise through its operating businesses, Smart Carpet. The terms of the franchise are documented in a franchise agreement. The franchise agreement between the Company as the franchisor and the customer as a franchisee requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead generally represent a single performance obligation, which is the transfer of the franchise license. The intellectual property subject to the franchise license is symbolic intellectual property as it does not have significant stand-alone functionality, and substantially all of its utility is derived from its association with the Company’s ongoing activities. The nature of the Company’s promise in granting the franchise license is to provide the franchisee with access to the brand’s intellectual property over the term of the license.

In January 2021, the Financial Accounting Standards Board (“FASB”) issued ASU 2021-02, “*Franchisors – Revenue from Contracts with Customers*” (Subtopic 952-606), which introduced a practical expedient for nonpublic business entities that simplifies the application of guidance about identifying performance obligations related to pre-opening services. In addition to the franchise fees listed below, the franchise agreement calls for various pre-opening services such as training. The Company adopted the practical expedient and determined it has two performance obligations – a franchise license and pre-opening services. Because no franchise licenses have been sold since its inception on March 20, 2021, there is no modified retrospective transition or full retrospective transition to apply.

The transaction price in the standard franchise agreement consists of i) an initial franchise fee; ii) continuing franchise fees (royalties); iii) a monthly brand fund contribution fee; and iv) a technology fee, as defined in the franchise agreement. The Company considers the licensing of the franchising right to be a single performance obligation and accordingly, no allocation of the transaction price is required. Additionally, the franchise agreement requires franchisees to purchase all required equipment, technology, and inventory.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued) - The Company recognizes revenue as follows:

- Franchise fees are recognized as revenues ratably on a straight-line basis over the term of the franchise agreement generally commencing on the date the franchise opened for business. Cash received at the beginning of the franchise term is recorded as a contract liability and recognized as revenue over time.
- Royalty fees entitled by the Company are earned based on 6% of the franchise business gross sales, as defined by the franchise agreement. Royalty revenues are recognized when the franchisee's reported sales occur. Depending on the timing, the recognition of revenue results in either a contract asset (unbilled receivable) or, once billed, accounts receivable, on the Company's balance sheet.
- The brand funding and technology fees are recognized monthly and payable to the Company in the same manner as the royalty fees. Brand funding revenue is earned based on 2% of gross sales. Technology fee revenue is earned at a flat fee of \$290 per month.

Pre-opening Costs - Pre-opening costs, including wages, benefits, travel, and other costs are expensed as incurred prior to the Smart Franchise location opening for business.

Advertising and Marketing Costs - Advertising and marketing costs are expensed as incurred.

Limited Liability Company - The Company is a Colorado Limited Liability Company, which provides limited liability for its members.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Financial Instruments - The Company's financial instruments consist of cash. The carrying amounts of cash approximates its respective fair value because of the short-term maturity or expected settlement dates of this instrument.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk - The Company's operations are concentrated in the carpet cleaning industry in Colorado. As such, the Company's operations are concentrated wholly in this industry. Going forward, accounts receivable will be derived from revenues earned from its franchisees. The Company believes that its contract acceptance, billing and collection policies will be adequate to minimize potential credit risk.

The Company maintains a cash account which, at times, may exceed the federally insured limit. Federal Deposit Insurance Corporation ("FDIC") insures accounts up to \$250,000. For the years ended December 31, 2022 and 2021, there were no cash balances exceeding the federally insured limit, respectively.

Note 2 - Related Party Note Payable

On November 27, 2021, the Company entered into a promissory note agreement with a member of the Company. The promissory note has an original principal balance of \$100,000 and bears interest of 3% per annum. A second promissory note was entered into with the same member on July 25, 2022 with an original principal balance of \$100,000 with terms and conditions consistent with the promissory note entered into on November 27, 2021. All unpaid principal and interest is due when adequate revenues are achieved which will ultimately be determined by the members in both notes. Due to the inherent uncertainty of when and how adequate revenues are determined, the Company classified the related party notes payable as a current liability on the accompanying balance sheet in accordance with ASC 470-10-45-10, "*Due on Demand Loan Arrangements.*" The principal balances on the related party notes payable were \$200,000 and \$100,000 as of December 31, 2022 and 2021, respectively.

Note 3 - Risks and Uncertainties

The new strain of coronavirus ("COVID-19") in 2020 and the efforts to contain it have negatively impacted the global economy, disrupted manufacturing operations and global supply chains and created significant volatility and disruption of financial markets. In addition, the COVID-19 pandemic has significantly increased economic and demand uncertainty. The Company believes the estimates and assumptions underlying the financial statements are reasonable and supportable based on the information available at the time the financial statements were prepared. However, uncertainty over the impact COVID-19 will have on the global economy and the Company in particular makes many of the estimates and assumptions reflected in the December 31, 2022 and 2021 financial statements inherently less certain. Therefore, actual results may ultimately differ from those estimates to a greater degree than historically.

Smart Franchise, LLC
Notes to the Financial Statements
December 31, 2022 and 2021

Note 4 - Income Taxes

The Company is a limited liability company and is not subject to federal income tax. The members are taxed on their share of the Company's taxable income. Accordingly, no provision or liability for federal or state income taxes has been included in the accompanying financial statement.

Note 5 - Related Party Transactions

The Company entered into a general contract for services agreement with Smart Carpet Care, LLC, an entity related through common ownership effective April 10, 2022. The Company received employment services in the amount of \$18,400 per month from May 1, 2022 through December 31, 2022. Amounts paid to Smart Carpet Care, LLC totaled \$147,200 for the year ended December 31, 2022. There are no amounts due to related parties as of December 31, 2022 and 2021.

Note 6 - Going Concern

The Company has incurred cumulative losses of approximately \$300,000 through December 31, 2022, which raises substantial doubt about the Company's ability to continue as a going concern. The Company is still in its early stage and has yet to generate revenues sufficient to create positive cash flows and will most likely dependent upon future member contributions or loans; however, there can be no assurance that the Company will be successful in achieving its objectives.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Note 7 - Subsequent Events

The Company has evaluated all subsequent events through February 1, 2023, the date the financial statements were available to be issued, and determined no events or transactions which would impact the financial statements for the year ended December 31, 2022.

EXHIBIT I

STATE SPECIFIC AGREEMENT ADDENDA

**ADDENDUM TO THE SMART® CARPET FRANCHISE AGREEMENT
REQUIRED FOR MINNESOTA FRANCHISEES**

This Addendum to the Smart® Carpet Cleaning Franchise Agreement dated _____ (“**Franchise Agreement**”) is entered into by and between **Smart Franchise LLC**, a Colorado limited liability company (“**we**”, “**us**” or “**Franchisor**”) and _____, a _____ [*insert type of organization and delete these brackets*] formed in _____ [*insert state and delete these brackets*] (“**you**” or “**Franchisee**”) as of the Effective Date (which is the date indicated on the signature page of this Addendum).

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: **(A)** the offer or sale of a franchise to Franchisee was made in the State of Minnesota; **(B)** Franchisee is a resident of the State of Minnesota; and/or **(C)** a Franchised Business will be located or operated in the State of Minnesota.

2. The following sentence is added to the end of Section 4.9:

Minnesota Statute 604.113 prohibits us from charging more than \$30 for insufficient funds charges.

3. The following sentence is added to the end of Sections 17.3.4, 18.3 and 21.2.3:

Notwithstanding the foregoing, you 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.

4. The following sentence is added to the end of Sections 18 and 19:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, Subdivisions 3, 4, and 5, which requires, except in certain cases, that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice for non-renewal of franchise agreements.

5. The following sentences are added to the end of Sections 26.2 and 26.3:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of 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.

6. The following sentence is added to the end of Section 26.4:

Minnesota Statute § 80C.17, Subdivision 5, provides that no action may be commenced pursuant to that Section more than three years after the cause of action accrues.

7. Section 26.7 is deleted and replaced with the following:

WAIVER OF CLASS ACTION LAWSUITS. THE PARTIES IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO BRING, OR BE A CLASS MEMBER IN, ANY CLASS ACTION SUITS.

8. The following sentence is added to the end of Section 26.8:

You may not consent to our obtaining injunctive relief. We may seek injunctive relief. See Minn. Rule 2860.4400J. A court will determine if a bond is required.

9. The following statement is added to the end of Section 28:

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

10. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

11. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

12. This Addendum may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original and all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Addendum by electronic transmission (including an electronic signature platform or the transmission of a scanned PDF document) shall be effective as delivery of a manually executed counterpart of this Addendum.

IN WITNESS WHEREOF, the parties have duly executed, sealed and delivered this Addendum as of the Effective Date identified below.

FRANCHISOR:

SMART FRANCHISE LLC,
a Colorado limited liability company

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

If a corporation, partnership, or limited liability company, print name of business entity on the line below:

By: _____

Print Name: _____

Title: _____

EFFECTIVE DATE: _____

If Franchisee is one or more individuals:

(Print Name) _____

(Print Name) _____

**ADDENDUM TO THE SMART® CARPET FRANCHISE AGREEMENT
REQUIRED FOR RHODE ISLAND FRANCHISEES**

This Addendum to the Smart® Carpet Cleaning Agreement dated _____ (“**Franchise Agreement**”) is entered into by and between **Smart Franchise LLC**, a Colorado limited liability company (“**we**”, “**us**” or “**Franchisor**”) and _____, a _____ [*insert type of organization and delete these brackets*] formed in _____ [*insert state and delete these brackets*] (“**you**” or “**Franchisee**”) as of the Effective Date (which is the date indicated on the signature page of this Addendum).

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Franchise Agreement. This Addendum is being executed because: **(A)** the offer or sale of a franchise to you was made in the State of Rhode Island; **(B)** you are a resident of the State of Rhode Island; and/or **(C)** the Franchised Business will be located in the State of Rhode Island.
2. The following language is added to Sections 26.2 and 26.3:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”
3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.
4. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.
5. This Addendum may be executed in multiple counterparts, each of which when executed and delivered shall be deemed to be an original and all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Addendum by electronic transmission (including an electronic signature platform or the transmission of a scanned PDF document) shall be effective as delivery of a manually executed counterpart of this Addendum.

[Signatures follow on next page.]

IN WITNESS WHEREOF, the parties have duly executed, sealed and delivered this Addendum as of the Effective Date identified below.

FRANCHISOR:

SMART FRANCHISE LLC,
a Colorado limited liability company

By: _____

Print Name: _____

Title: _____

EFFECTIVE DATE: _____

FRANCHISEE:

If a corporation, partnership, or limited liability company, print name of business entity on the line below:

By: _____

Print Name: _____

Title: _____

If Franchisee is one or more individuals:

(Print Name) _____

(Print Name) _____

EXHIBIT J

STATE EFFECTIVE DATES

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

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

STATES	EFFECTIVE DATE
Minnesota	PENDING
Rhode Island	PENDING

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

EXHIBIT K
RECEIPTS

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain English. Read this disclosure document and all agreements carefully.

If Smart Franchise LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York requires that Smart Franchise LLC gives you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Iowa requires that Smart Franchise LLC gives you this disclosure document at the earlier of the first personal meeting or 14 calendar days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. Michigan requires that Smart Franchise LLC gives you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Smart Franchise LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to your state authority listed on Exhibit A.

The franchisor is Smart Franchise LLC with a principal business address of 609 Gyrfalcon Court, Suite A, Windsor, CO 80550. Its telephone number is 970-590-8777. Smart Franchise LLC authorizes the respective state agencies listed in Exhibit A to receive service of process of it in the particular state.

Issuance Date: March 4, 2024

The name, principal business address, and telephone number of the franchise sellers offering the franchise are: Robert Valois, President and Chief Executive Officer, Dan Kramig, Chief Development Officer, and Gabby Lorenzen, Director of Franchise Operations, Smart Franchise LLC 609 Gyrfalcon Court, Suite A, Windsor, CO 80550, 970-590-8777. Any additional individual franchise sellers involved in offering the franchise are listed below: _____.

I received a disclosure document dated March 4, 2024, that included the following exhibits:

- A. Additional State Required Disclosures
- B. List of State Administrators and Agents for Service of Process
- C. Confidentiality Agreement
- D. Franchise Agreement
- E. Manual Table of Contents
- F. Training Participation and Non-Disclosure Agreement
- G. List of Franchisees
- H. Financial Statements
- I. State Specific Agreement Addenda
- J. State Effective Dates
- K. Receipts

Date Received

Prospective Franchisee

Name (Please print)

Address

Please keep this copy of the receipt with your FDD.

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain English. Read this disclosure document and all agreements carefully.

If Smart Franchise LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York requires that Smart Franchise LLC gives you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Iowa requires that Smart Franchise LLC gives you this disclosure document at the earlier of the first personal meeting or 14 calendar days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. Michigan requires that Smart Franchise LLC gives you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Smart Franchise LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to your state authority listed on Exhibit A.

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- H. Financial Statements
- I. State Specific Agreement Addenda
- J. State Effective Dates
- K. Receipts

Date Received

Prospective Franchisee

Name (Please print)

Address

Please sign, date, and return this copy of the receipt to us.