

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISE DISCLOSURE DOCUMENT**

**2022**

# FRANCHISE DISCLOSURE DOCUMENT



PAUL DAVIS RESTORATION, INC.  
a Florida Corporation  
7251 Salisbury Road, Suite 6  
Jacksonville, FL 32256  
U.S.A.  
Telephone: (904) 737-2779  
[www.pauldavis.com](http://www.pauldavis.com)

Paul Davis Restoration, Inc. ("PDRI") licenses franchise rights to use PDRI's trade name, logo, Operations Manual, business systems and computer programs for the operation of a general contracting business specializing in structural reconstruction and emergency services, including drying, cleaning, loss mitigation and mold remediation, primarily in the insurance restoration market. The basic reconstruction and emergency services provided under the name "Paul Davis Restoration®" are promoted to the insurance restoration markets and the general partner.

The total investment necessary to begin operating of a PDRI franchise is \$191,740 to \$517,000. This includes \$50,000 to \$130,000, that must be paid to the franchisor or an affiliate prior to opening (based on the population of your territory).

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.**

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](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

The Issue Date of this Disclosure Document is: March 14, 2022

## How to Use This Franchise Disclosure Document

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

<b>QUESTION</b>	<b>WHERE TO FIND INFORMATION</b>
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit A.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit B-1 includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only Paul Davis Restoration, Inc. business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchise have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Paul Davis Restoration, Inc. franchisee?</b>	Item 20 or Exhibit A lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

### Some States Require Registration

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

Your state may also 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. Dispute Resolution. The franchise agreement permits the franchisee to arbitrate with PDRI and with other franchisees only in the location designated by the arbitrators, who are franchisees, in accordance with the arbitration rules in the franchise agreement. Out of state arbitration may force you to accept a less favorable settlement for disputes. It may also cost you more to arbitrate with PDRI in the designated location than in your home state.
2. Personal Guaranty. If the franchisee is a business entity, each shareholder/partner/member/manager of franchisee must personally guarantee the obligations of franchisee under the franchise agreement. This places the personal assets of each individual at risk.

Certain states may require other risks to be highlighted. If so, check the “State Specific Addenda” pages for your state.

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

To simplify this disclosure document, “PDRI” or “Franchisor” means Paul Davis Restoration, Inc., the franchisor. “You” means the franchisee, and includes a corporation, partnership or other legal entity and the individual owner(s) of the entity.

### **CORPORATE HISTORY**

PDRI was incorporated in Florida in 1967. Prior to February 2, 2000, PDRI did business under the name of “Paul W. Davis Systems, Inc.” and under the trade name “Paul Davis Systems®”. On January 1, 2000, PDRI adopted the trade name “Paul Davis Restoration®” and on February 2, 2000, PDRI changed its corporate name from Paul W. Davis Systems, Inc. to “Paul Davis Restoration, Inc.” On November 14, 1997, The Franchise Company (U.S.) Inc., a Delaware corporation, whose principal place of business is 1140 Bay Street, Suite 4000, Toronto, Ontario, M5S 2B4 Canada, acquired PDRI. On December 31, 2011, The Franchise Company (U.S.), Inc. sold PDRI to its subsidiary, FS Brands, Inc., a Delaware corporation, whose principal place of business is 2621 Van Buren Avenue, Suite 550A, Audubon, PA 19403. PDRI has no predecessors. PDRI is wholly owned by FSB Holdings, Inc., a subsidiary of FS Brands, Inc. and a Delaware corporation with an address at 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256.

PDRI began its operations as an insurance restoration structural renovation specialist in 1967. It created its first two Paul Davis Restoration® franchises in January 1970. Both franchises were substantially the same as those offered in this disclosure document except that they did not include the “Optional Programs”, discussed below. As of December 31, 2021, PDRI had 218 Paul Davis Restoration franchises of which 212 were in operation. All of these franchises are substantially similar to the franchise described in this disclosure document.

In 2009, PDRI began offering franchises for the operation of a business specializing in emergency services, including drying, cleaning, decontamination, repair, board-up, demolition, loss mitigation, mold remediation, and other emergency services for residential and commercial buildings, structures and contents (the “Paul Davis Emergency Services Business”). Currently, Paul Davis Emergency Services Businesses can convert to a full Paul Davis Restoration® franchise by paying a transfer fee as required in their franchise agreement and agreeing to comply with all operational requirements of the Paul Davis Restoration® franchise. As of December 31, 2021, PDRI had 47 Paul Davis Emergency Business franchisees, all of which were in operation.

Paul Davis Restoration Inc. (“PDRI Canada”) is a corporation incorporated under the laws of the Province of Ontario, Canada, with its principal place of business at 2180 Meadowvale Boulevard, Suite 200A, Mississauga, Ontario, Canada, L5N 5S3. On May 30, 2014, PDRI Canada acquired the assets of 1739815 Ontario Ltd. (formerly named Paul Davis Systems Canada, Ltd.) (“PDSC”), the former franchisor of general contracting franchises specializing in insurance restoration under the Paul Davis Systems name in Canada. PDRI Canada has offered and sold Paul Davis Systems franchises since the completion of the acquisition on May 30, 2014. Prior to the acquisition, PDSC offered and sold Paul Davis Systems since 1986. As of December 31, 2021, there were 61 Paul Davis Systems franchises with 60 in operation in Canada.

In 2015, PDO Holdings, Inc., an affiliate of PDRI, began acquiring a majority ownership in certain Paul Davis Restoration® franchises. As of December 31, 2021, there are fifteen Paul Davis Restoration® franchises that are 80% or more owned by PDO Holdings, Inc., thirteen of which are in the US and two in Canada. PDO Holdings, Inc. is a subsidiary of FSB Holdings, Inc. and a Delaware corporation with an address at 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256. The US stores are listed as “franchised” locations in Item 20 of this disclosure document, because all thirteen are operated pursuant to a current franchise agreement. Paul Davis National is not currently in operation.

In 2021, our affiliate, Paul Davis Commercial Division, Inc., a Delaware corporation with an address at 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256, was formed as a subsidiary of FSB Holdings, Inc., in order develop, refer and provide services to commercial restoration customers.

### **BUSINESS ADDRESSES**

The address of PDRI’s principal place of business is 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256. PDRI’s telephone number is (904) 737-2779.

PDRI’s Agent for Service of Process in your state is disclosed in Exhibit E.

### **THE PDRI FRANCHISED BUSINESS**

PDRI licenses franchise rights to use PDRI’s trade name, logo, Operations Manual, business systems and certain computer programs for the operation of a general contracting business specializing in structural reconstruction and emergency services, including drying, cleaning, loss mitigation and mold remediation, of residential and commercial structures and contents. Catastrophe response to service customers may be requested from time to time. Some existing franchises also offer remodeling services. The basic structural reconstruction and emergency services provided under the name “Paul Davis Restoration®” are promoted to the insurance restoration markets and the general public. Services were deemed essential by the relevant state and local authorities and the Businesses remained open and operating throughout 2021.

In 2021, PDRI developed an Optional Commercial Loss Lead Program that Franchisees may opt into by an Amendment to the Franchise Agreement. A copy of the Commercial Program Agreement can be found at Exhibit D to this document.

PDRI or its affiliates may develop and offer Optional Programs in the future. You may also choose to participate in any of these Optional Programs by executing an Attestation or Addendum to your Franchise Agreement, but additional fees, training and other qualifications may be required. In addition, your election to participate in an Optional Program may affect your requirements for inventory, equipment, supplies, personnel and operating capital.

The franchise training and software are intended to increase the speed and efficiency with which you, acting as general contractor, may restore and clean damaged facilities, and engage in other construction activities and various cleaning and other services. You will compete with other general contractors and specialty contracting businesses in your local area for insurance

restoration, cleaning work and other specialty contracting work. You will receive a Paul Davis Restoration® Operations Manual (the “Operations Manual”). You must comply with certain procedures in the Operations Manual, but PDRI may provide to you, from time to time, suggested procedures for you to consider in the operation of a Paul Davis Restoration® insurance restoration franchise. If you choose to participate in any Optional Programs you may be required to comply with additional obligations such as maintaining designated PDRI-trained personnel.

PDRI has designated a common software system called Restoration Management Software by NextGear that integrates with required third-party software (collectively the “Common Software”) which enables the user to estimate the cost of restoring damaged facilities and remodeling existing facilities, engage in other construction activities and provide various cleaning services; produce detailed work orders showing production costs for each phase of any construction activity; maintain current cost figures, sales records, commission accounts, records of customers and associates, and other business records; and maintain detailed records for each construction activity (including work orders, draw requests, change orders, jobs in progress, accounts receivable, accounts payable, workman’s compensation audits, check writing, and job closings) for estimating and managing restoration work projects. If you acquire a franchise, you will be required to use the Common Software. Specific functionality of the software programs is subject to change, at PDRI’s discretion, as are business practices, operating procedures, and other technology. The Common Software integrates and requires the use of a designated third party estimating system; a designated third party project management system and a designated third party accounting package that must be purchased independently by each Paul Davis Restoration® franchise. In addition, some insurance companies may require the use of other third party software including but not limited to generating and submitting estimates. You must acquire a computer system, including Internet access, compatible with the Common Software. See Item 11 for further details regarding the software and also for computer hardware specifications.

You will be a member of the PDRI Franchise Councils (described in Item 6), and you may, through such Councils and subject to PDRI’s consent, effect changes in the Operations Manual. See Item 11 for more information.

PDRI and its affiliates retain the right to operate one or more Paul Davis Restoration® businesses as company outlets. As of the date of this disclosure document, PDRI has no company outlets. PDRI and its affiliates reserve the right to participate in other businesses, including related businesses.

### **SPECIAL INDUSTRY REGULATIONS**

PDRI franchisees must comply with state and local laws that regulate general contractors. Many states require a general contractor license and some localities also require licensing. As a general contractor, you may have worker’s compensation liability for employees of your subcontractors if they fail to maintain the Worker’s Compensation Insurance required by state law. You must comply with other laws in your state regulating general contractors. It is solely your responsibility to investigate all laws and regulations applicable to the operation of your franchised business, and you alone are responsible for compliance despite any advice or information that we may give you. We have not researched any of these laws or regulations to determine their specific

applicability to your business. You should consult an attorney in the locality where you intend to operate your franchise to ensure compliance with all applicable state, local and federal laws.

### **PDRI'S AFFILIATES**

The following is a list of PDRI's affiliates including the principal address, a description of the business, and the number of franchises of each. Other than the Paul Davis Emergency Services Business and as disclosed below, neither PDRI nor its predecessors nor affiliates presently operate businesses of the type that they franchise, offer franchises in any other line of business or engage in any other type of business.

<b><i>Company/Address</i></b>	<b><i>Type of Business/Year Began Offering Franchises</i></b>	<b><i>Number of Franchises as at December 31, 2021</i></b>
California Closet Company, Inc., a California corporation  1414 Harbour Way S. Suite 1750 Richmond, CA 94804	Residential and commercial customized closet, office, garage, and storage space design, production, and installation services and related products / 1980	39 (United States)* 5 (Canada) 2 (International)  * A subsidiary of our parent company holds a majority interest in 42 franchises in the United States.
Certa ProPainters, Ltd., a Massachusetts corporation  2621 Van Buren Avenue, Suite 550A, Audubon, PA 19403	Residential and commercial painting and decorating franchises / 1992	342 (United States)
Certa Pro Painters Ltd., a Canadian corporation  1140 Bay Street, Suite 4000 Toronto, Ontario M5S 2B4 Canada	Residential and commercial painting and decorating franchises / 1990	28 (Canada)
Floorcoverings International, Ltd., a Georgia corporation  5390 Triangle Parkway Suite 125 Norcross GA 30092	Mobile retail floor covering and window blind business / 1998	194 (United States) 10 (Canada)
Paul Davis Restoration, Inc., a Canadian corporation  2180 Meadowvale Boulevard, Suite 200A, Mississauga, Ontario, Canada, L5N 5S3 Canada	Structural reconstruction and emergency services, including drying, cleaning, loss mitigation and mold remediation, of residential and commercial structures and contents / 2014	61 (Canada)

<b><i>Company/Address</i></b>	<b><i>Type of Business/Year Began Offering Franchises</i></b>	<b><i>Number of Franchises as at December 31, 2021</i></b>
Pillar To Post Inc., a Delaware corporation  14502 N. Dale Mabry Highway Suite 200 Tampa, FL 33618	Residential inspection services for single family and some various smaller multi-family residences / 1995	483 (United States)
Pillar To Post Inc., a Canadian corporation  5399 Eglinton Ave W Suite 110 Etobicoke, Ontario M5C 5K9 Canada	Residential inspection services for single family and various multi-family homes / 1994	66 (Canada)
Magic Bubbles Franchising, Inc., a Florida corporation  4440 PGA Blvd., #600 Palm Beach Gardens, FL 33410	Pressure washing / 2016	10 Franchised 4 Company Owned (United States)
<b><i>AFFILIATES WHICH MAY FROM TIME TO TIME PROVIDE PRODUCTS OR SERVICES TO THE FRANCHISOR AND/OR ITS FRANCHISEES:</i></b>		
Tele-Link Services Inc., an Ontario corporation  700 Richmond Street, Suite 416 London, Ontario N6A 5C7 Canada	Answering services and telemarketing and customer survey services for the franchisor and its franchisees	N/A

## **ITEM 2: BUSINESS EXPERIENCE**

Chief Executive Officer and Director: Richard D. Wilson

Mr. Wilson has been Chief Executive Officer and Director of PDRI in Jacksonville, Florida since March 2015.

Chief Financial Officer: Barry Floyd

Mr. Floyd was named Chief Financial Officer of PDRI in Jacksonville, Florida in March 2013.

Director: Charles E. Chase

Mr. Chase is currently the Chief Executive Officer of FS Brands, Inc. in Oaks, Pennsylvania, and has been employed by PDRI's affiliates in various positions for a number of years. Since June 2010, Mr. Chase has been employed as the President of FS Brands, Inc., in Oaks, Pennsylvania. In July 2011, Mr. Chase was appointed as a Director of PDRI. Since 2020, Mr. Chase serves as

In July 2011, Mr. Chase was appointed as a Director of PDRI. Since 2020, Mr. Chase serves as President and CEO of our affiliate, California Closet Company, Inc. Mr. Chase also serves as a Director for FS Brands, Inc., Super Restoration Service Co., LLC, and various of the affiliates disclosed in Item 1.

Director: Douglas G. Cooke

Mr. Cooke has been employed by FirstService Corporation in Toronto, Ontario, Canada as Corporate Controller since 1995 and as Vice President since 2005. Mr. Cooke also serves as Director for Super Restoration Service Co., LLC.

Secretary, Treasurer and Director: Brian M. McDonough

Mr. McDonough has served as our Secretary, Treasurer and Director since January 2022. Mr. McDonough previously served as our Assistant Secretary in 2021. Mr. McDonough has served as FS Brands, Inc.'s Vice President of Finance since January 2021. Previously, Mr. McDonough was FS Brands, Inc.'s Director of Finance from January 2019 until January 2021. From 2014 until 2019, Mr. McDonough was the Controller at College Pro Painters (US) Ltd. with an address at 35 Pond Park Road, Unite 10, Hingham, MA 02043. Mr. McDonough also serves as a director for various of the affiliates listed in Item 1.

Rotating Director (Franchisee Representative): Caleb Brunz

An additional seat on the Board of Directors is reserved for the current President of the Paul Davis Franchisee National Executive Council, the franchisee governing body. The seat is currently held by Caleb Brunz, the owner of three franchises, Paul Davis Restoration of Greater St. Paul, MN, Paul Davis Restoration of Greater Minneapolis, MN and Paul Davis Restoration of the Northland, MN. Mr. Brunz was elected president of the Paul Davis Franchisee National Executive Council effective January 1, 2022.

Assistant Vice President of Franchise Development: Jacqueline M. Fairfax

Ms. Fairfax was named Assistant Vice President of Franchise Development in November 2003, and is responsible for new franchise sales. Her office is located in Carmel, Indiana.

Director of Franchise Development: John Conway

Mr. Conway was named Director of Franchise Development in December, 2020. He has worked in franchising since 1993 and in Franchise Development since April, 1999. His office is in Phoenixville, Pennsylvania.

### **ITEM 3: LITIGATION**

**PENDING LITIGATION**

None.

## **CONCLUDED LITIGATION**

Jacinta Bell wife of/and Judge David Bell, et al. v The Hanover American Insurance Co., PD National, Inc., The Franchise Company, First Service Corporation, Christopher C. Karpelis, Greg Cartwright, Kevin Crawford, Daniel B. Druml, John K. Murphy, and Howdy Russell (Civil District Court of the Parish of Orleans, State of Louisiana, Division K-5, Case No. 10-1995).

Plaintiffs, customers of a PDRI franchisee, filed a claim of breach of insurance contract and breach of insurer's duty of fair dealing and good faith against Hanover and breach of contract, unworkmanlike performance, and unfair trade practices against PD National, TFC, FirstService, and the individual defendants. PDRI was added as a defendant in a First Supplemental and Amending Petition filed October 15, 2010. Cincinnati counsel defended both PDN and PDRI. This matter was settled with respect to PDRI by Release on March 7, 2014, and under the settlement PDRI agreed to pay certain sums to the plaintiffs, without any admission of wrongdoing.

Bruce Mills, Pamela Mills v Republic Fire and Casualty Insurance Company, PD National, Inc., Paul Davis Restoration, Inc., Daniel B. Druml, Kevin Crawford, John K. Murphy, Christopher Karpelis, CK Restoration, LLC, Bella Renovations & Flooring, LLC, et. al (24th Judicial District District Court of the Parish of Jefferson, State of Louisiana, Division F, Case No. 684664).

Plaintiffs, customers of a PDRI franchisee, filed a claim in October 2010 asserting claims for breach of insurance contract, breach of insurer's duty of good faith and fair dealing, and unjust enrichment against Republic and breach of unfair or deceptive trade practices and breach of contract and warranty against a franchisee and other defendants. Counsel for the plaintiffs was the same as in the Bell case listed above and filed against many of the same defendants. The claim against PDRI was based on the allegation that PDRI acted in concert and conspiracy with the other defendants, but PDRI asserts that there are no facts that would establish such a relationship. PD National's insurer, Cincinnati Insurance Companies, accepted tender of the claim for PD National and for PDRI as an additional insured. This claim was settled in July 2014 with respect to PDRI and, under that settlement, PDRI agreed to pay certain sums to the plaintiffs, without any admission of wrongdoing.

Alphonso Smith, Jasper Edwards, Glenn Johnson and Russell Warmouth v. Paul Davis Restoration, Paul Davis Restoration of Bloomington/Peoria; Gorsac, LLC, P & D Construction, Inc., Chris McConnell and Paul Davis Restoration, Inc. (Circuit Court of Cook County, Illinois, Case No. 2013L008964).

On August 13, 2013, plaintiffs filed a negligence claim alleging that the defendants, which included PDRI and one of its franchisees, did not provide a safe work environment for the plaintiffs, who were hired as temporary workers on a job site that was contaminated by the *Histoplasma capsulatum* fungus.

The Plaintiffs were hired by the franchise from Labor Ready. PDRI has provided notice and demanded indemnification from its franchisee for the claim. The franchisee reported the claim under its General Liability and Pollution policy. The Franchisee's insurers, Cincinnati Insurance

Companies and RockHill denied coverage for the claim. PDRI filed a Declaratory Action against RockHill, the franchisee's insurance carrier for Bad Faith and on the coverage issue. Rockhill settled the case on November 25, 2015 for PDRI with PDRI contributing \$20,000 toward full releases, without any admission of wrongdoing.

Other than these actions, no litigation is required to be disclosed in this Item 3.

#### **ITEM 4: BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

#### **ITEM 5: INITIAL FEES**

You may acquire a Paul Davis Restoration® franchise with an initial (and renewable) term of five years, for a franchise fee of \$0.20 per person for the first 500,000 in a population and \$0.10 per person for each person in the population over 500,000. Accordingly, your franchise fee will depend on the size of your territory population. PDRI does not generally sell franchises that exceed populations in excess of 800,000. The franchise fee is payable with at least 50% in cash. For a standard size franchise of 500,000, the greater of \$50,000 or 50% of the initial franchise fee is due upon signing the Franchise Agreement. PDRI will finance the remaining portion of the initial franchise fee with a four-year promissory note at an APR of 6%, as described in Item 10 of this disclosure document.

PDRI participates in the IFA's VetFran Program which provides special incentives to qualified veterans of the US Armed Forces who otherwise meet the requirements of the VetFran program. PDRI reduces the initial franchisee fee by 25% for qualified veterans. In addition, for VetFran approved franchisees, PDRI may finance up to 67% of the reduced initial franchise fee for approved franchisees, as described in Item 10 of this disclosure document.

In the previous fiscal year (ending December 31, 2021), franchise fees ranged from \$55,410 to \$129,808. Two Paul Davis Emergency Service franchisees converted to one full-service Paul Davis Restoration® franchise in 2021. (Paul Davis Restoration of Greater Reno and Tahoe, NV).

PDRI uses a third-party software system called ESRI by ARC GIS to determine the population of franchise territories, by zip code.

At the sole option of PDRI, PDRI reserves the right during classroom training, or at any point prior to opening, to rescind the Franchise Agreement and refund to you within 5 business days all of the franchise fee paid by you to PDRI if, in the reasonable determination of PDRI, you fail to meet PDRI's performance standards evidenced through evaluations determined by classroom training and personal interviews. PDRI will not refund any portion of the franchise fee under any other circumstances. In the event of such termination, you would be bound by the covenant not to compete, trade secret covenants and arbitration provisions described in Item 17.

## ITEM 6: OTHER FEES

Type of fee	Amount	Due Date	Remarks
Royalty Fee	4% of Gross Sales.	Payable monthly on the 25 <sup>th</sup> day of each month, for Gross Sales invoiced during the preceding month.	<p>“Gross Sales” includes the total amount of all invoiced sales or other revenue for labor, material, and services performed or rendered (a) by you or (b) by third party vendors and subcontractors who provide services or materials for your clients as a part of your services and pay you a fee of any kind. Gross Sales does not include the amount of any applicable sales tax imposed by any federal, state, municipal or other governmental authority if such taxes are stated separately when the customer is charged and you pay such amounts as and when due to the appropriate taxing authority. Gross Sales includes all items invoiced on an estimate or work authorization including items paid for directly by the client or insurer. In the case of jobs involving multiple franchisees, each franchise will be responsible to report Gross Sales to the extent the franchisee invoices, or is paid by, the ultimate customer or insurer.</p> <p>PDRI has some older franchise agreements under which those franchisees pay lower royalty rates.</p>
Minimum Royalty	Annual minimum sales rate multiplied by the population in the territory multiplied by the 4% royalty rate. The minimum sales rate equals \$0 for the partial year following the effective date of the franchise agreement, \$1.00 for the first full calendar year, \$2.00 for the	Due annually, within 30 days of notice of amount due.	Only applies to extent actual royalties paid to PDRI do not meet your minimum royalty obligation.

Type of fee	Amount	Due Date	Remarks
	second full calendar year, \$3.00 for the third full calendar year, \$3.50 for the fourth full calendar year, \$4.00 for the fifth full calendar year; \$4.50 for the sixth full calendar year; \$5.00 for the seventh full calendar year; \$5.50 for the eighth full calendar year; and \$6.00 for the ninth full calendar year and following years. The minimum sales rate is adjustable on annual basis based on changes to the Consumer Price Index. The annual Minimum Royalty amount may be prorated for any partial years the franchised business is held.		
Guarantee Fund Contribution	0.5% (1% in the case of a resale of an existing franchise) of Gross Sales until the fund balance equals \$20,000 for the first 500,000 of population within the territory and an additional \$2,000 for each additional 100,000 or portion thereof above 500,000, or such greater amount as may be established by Completion Services, Inc.	Monthly. See Note 1.	Paid to Completion Services, Inc., a corporation owned by all franchisees. Used to fund warranty work performed by franchisees.
Indemnity Fund Fee	0.10% of Gross Sales of \$0 to \$2,000,000;  0.08% of Gross Sales of \$2,000,000.01 to \$4,000,000;  0.06% of Gross Sales of \$4,000,000.01 to \$8,000,000; and  0.04% of Gross Sales of \$8,000,000.01 or greater.	Monthly. See Note 1.	Paid to Completion Services, Inc., a corporation owned by all franchisees. Used to fund insurance policy indemnifying program carriers on work performed by franchisees.
Computer Software Support Fee	\$75 per month.	Payable monthly. See Note 1.	

Type of fee	Amount	Due Date	Remarks
Additional Training Fee	\$5,000 per additional person for PDRI Full Owner School.	Before training.	Franchisee Fee includes training for one person.
Call Center Fee	Actual cost per call plus a 20% administrative charge.	Payable monthly.	Fee for calls received and losses dispatched through Paul Davis Brand Experience Center
Joint Quality Business Review	\$50 per month.	Payable monthly.	Conducted by PDRI representatives.
Renewal Fee	\$5,000	Due upon renewal.	You must also meet other conditions in order to renew your Franchise Agreement.
Transfer Fee	\$10,000 (for majority transfer) or \$5,000 (for minority transfer), plus a re-sale fee equal to 2.5% of the sale price to cover PDRI's due diligence expenses and vetting fees, as applicable.	Due before transfer. See Note 3.	The re-sale fee is capped at \$25,000. See Franchise Agreement for restrictions and requirements.
Strategic Marketing Plan ("SMP") Fee	0.75% of Invoiced Sales for the first \$5,000,000 of Sales invoiced in each calendar year, and 0.50% of Invoiced Sales for all Sales invoiced between \$5,000,000 and the 2022 cap of \$12,078,825. The maximum amount per franchise and/or common majority owned Franchised businesses in contiguous territories shall be \$72,894 until such time as the Network increases the cap or otherwise changes the funding of the SMP. Such calculation may be subject to change based on a 2/3rds vote of the General Council authorizing such change.	Payable monthly. See Note 1.	

Type of fee	Amount	Due Date	Remarks
Bankruptcy Costs and Attorneys' Fees	As incurred.	As incurred.	In the event of a bankruptcy by a franchisee, the franchisee is liable to PDRI for all of PDRI's costs and attorneys' fees associated with the bankruptcy.
Promissory Note Collection Costs and Attorneys' Fees	As incurred.	As incurred.	PDRI offers financing for up to 50% of your initial franchise fee. If PDRI needs to collect or enforce its payment rights, you are required to pay PDRI for all costs and expenses, including attorneys' fees, incurred. See Item 10 for more information on financing.
Re-certification Training	Our then-current re-certification training fee.  Currently, our re-certification training fee is \$4,000	Prior to training.	See Item 11 for additional information.
Program Account Review Fee	Up to 1% of the amount of the job.	As incurred.	If PDRI establishes referral programs with insurance companies which require estimate and invoicing standards, PDRI may provide review services in connection with such programs for franchisees for a fee of up to 1% of the amount of the job.
Optional Program Fees	Per the Program. Commercial Program is currently 5% of the job.  FAST Central Estimating for mitigation is currently 1% of the job.	See Note 4	Royalty is not charged on administrative fees, however a royalty is charged on the net invoice for each Optional Program provided (less the Optional Program Fees).

Type of fee	Amount	Due Date	Remarks
Xactimate™ Software License Fee	Basic/Standard: Up to \$93.12 per license; Pro: \$131.87/license. All license fees include tax and 2% administrative fee. An Xactanalysis per claim fee may be charged up to \$9.00 per assignment.	Payable monthly.	Paid to PDRI for payment to Xactimate™. PDRI handles the billing in order to secure favorable pricing for franchisees. This pricing is subject to change.
Symbility/Core Logic Software Fee	Per claim fee of \$15.00.	Payable per claim as incurred.	Some Programs are moving to the Symbility estimating System, which may be required to do some Program work.
Microsoft 365 Software License Fee	\$8.00/user/month for email and cloud based applications or \$20.00/user/month for the full suite downloadable to your workstation. Spanning backup: \$2.50/user/month; amounts may change as set by Microsoft	Payable monthly.	PDRI pays \$8.00/user/month through the Strategic Marketing Fund. Franchisees who elect the full suite will be billed by PDRI for the additional \$12.00/user/month.
Quickbooks Software License Fee	QB On Line with 5 available users – monthly fee per current pricing. The current listed non-promotional price is \$80 USD/Month (5-users per environment) for a single EIN (aka QuickBooks file)	As incurred.	Additional licenses must be purchased by the Franchisee and is payable to Intuit. PDRI may have secured favorable pricing for franchisees.
New Franchisee Training at Resale	<p>New Owners - No previous Paul Davis or IICRC training/GM Training Fees</p> <ul style="list-style-type: none"> <li>\$18,000 (Training Program B) this includes:</li> <li>Owner/GM FULL training &amp; Full Launch experience.</li> </ul> <p>Resale Owners - Some prior training/GM Training Fees:</p>	Before training.	Payable if you purchase your franchise from an existing franchisee and do not pay any initial franchise fee to PDRI. See Item 11 for more information about training.

Type of fee	Amount	Due Date	Remarks
	<ul style="list-style-type: none"> <li>\$11,000 (Training Program A) this includes:</li> <li>Owner/GM Partial Owners School training (\$5,000) and,</li> <li>Launch Coaching, Support &amp; Field Launch/Training (\$6,000)</li> </ul> <p>GM (only) Training Fees:</p> <ul style="list-style-type: none"> <li>\$5,000 (Training Program A or B)</li> <li>This includes Owner/GM FULL or Partial training and,</li> <li>Launch coaching through Owners School Graduation.</li> </ul>		
Dishonored Check and EFT Denial Fee	\$100 per dishonored check or electronic funds transfer denial.	As incurred.	
MICA Software	Up to \$70.00 per account per month. A per-claim charge may apply for some carriers. Reductions in fees to Paul Davis Franchisees by MICA may apply.	Payable monthly.	Paid to CoreLogic. Prices may change as initiated by the Third Party Software.
Common Software Fee - RMS	<p>For a primary office: \$495/month, plus a \$3,000 initial implementation fee.</p> <p>For a secondary office there will be a one-time set up charge of \$350 and a monthly fee of \$250.</p>	As incurred. See Note 2.	Paid to PDRI for payment to CoreLogic.
Conference Registration Fee	Up to \$500	Within 30 days of billing	PDRI may from time to time hold franchisee conferences. You must pay a conference registration fee determined for each conference, not to exceed \$500.

## **NOTES TO ITEM 6:**

The preceding chart shows recurring or isolated fees or payments that you must pay either to PDRI or that PDRI imposes or collects on behalf of a third party. All fees are imposed by and payable to PDRI unless otherwise stated. All fees are nonrefundable and are uniformly imposed on all franchisees except as otherwise described below. Late payment is assessed at 1 1/2% per month. Please see the notes below for additional information about these fees.

Note 1: The Guarantee Fund Contribution, the Computer Software Support Fee, the Strategic Marketing Plan Fee, and the Indemnity Fund Fee have been voted into the Paul Davis Restoration® Operations Manual by the Councils and will remain in effect until removed or changed by Council vote.

All franchisees of PDRI are members of the Paul Davis Restoration® General Council and of one District Councils. The General Council of all PDRI franchisees meets on an annual basis, generally at the Annual Conference. Each of the District Councils, composed of all franchisees whose franchise territories are located in the geographically defined districts, meet twice each year. The District Councils vote on proposed changes to the Paul Davis Restoration® Operations Manual. In this disclosure document, references to Council mean the District Councils.

Note 2: The fees associated with the RMS will be \$495 per month for the Primary office. An implementation fee of \$3,000 will also be charged by Next Gear. If you own additional offices (common ownership), there will also be a one-time set up charge of \$350 and a monthly fee of \$250 for these secondary offices. See Item 11 for more information regarding software and other relevant technology.

Note 3: PDRI will facilitate the vetting and review of your re-sale candidate. The cost to perform these services is 2.5% of the sale price, but in any event the resale fee will not exceed \$25,000, payable at closing. A transfer fee of \$10,000 for a majority transfer and \$5,000 for a minority transfer will also be charged. Additionally, PDRI can assist qualified franchisees with Lead Generation assistance in the sale of their franchise. The exact amount of the Lead Generation fees for any particular case will be disclosed at the time of agreement and includes broker fees. Lead Generation assistance is optional and voluntary.

Note 4: PDRI may offer Optional programs such as the National Commercial Sales Program and FAST (central mitigation estimating) that may require additional training and/or administrative fees associated with the Optional Program. The administrative fees will be deducted from the invoice amount with the Royalty Fee charged on the net invoice. Other requirements may apply, but participation is optional by the Franchisee.

## ITEM 7: ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is to Be Made
Franchise Fee	<p>\$0.20 per person up to populations of 500,000. And \$0.10 per person for populations of 500,001 and up.</p> <p>We will not sell a single franchise with a territory having a population in excess of 800,000.</p> <p>\$50,000 - \$130,000 (Note 1)</p>	Lump sum or as arranged	50% in cash due when Franchise Agreement signed; 50% balance may be financed in the form of a four year promissory note with an APR of 7%.	PDRI
Real Property and Improvements (2)	\$1,800 - \$4,600 (Note 2)	As incurred	Monthly (Note 2)	Landlord (Note 2)
Marketing and Advertising (3)	\$12,000 - \$60,000	As incurred	As arranged	Third Party Vendors
Equipment, Computer, Fax Copier (4)	\$8,000 - \$20,000	As incurred	Before Training	Third Party Vendors
Computer Software Licensing	\$7,000 - \$12,000	Lump sum or as incurred	Before opening and billed monthly	Third Party Vendors or PDRI on behalf of Vendors
Office Furniture	\$2,000 - \$5,000	As incurred	Before Opening	Third Party Vendors
Branded or Compliant Vehicle (5)	\$5,000 - \$93,000	Lump sum or as arranged	Before Opening	Third Party Vendors
Equipment & Chemical Package (Start-Up Kit") (6)	\$5,000 - \$40,000	Lump sum or as arranged	Before Training	Third Party Vendors

Travel and Living Expenses While Training (7)	\$5,000 - \$7,500	As incurred	During Training	Third Parties
Insurance (8)	\$10,000 - \$16,000	As incurred	Before Opening	Insurance Companies
Licensing (9)	(Note 9)	As incurred	(Note 9)	(Note 9)
Phone Installation and Utility Deposits	\$1,000 - \$2,000	As incurred	At opening	Phone company and utility companies
Rent Deposit	\$2,000 - \$5,000	Lump sum	At signing of lease	Landlord
CPA Fees - Initial Work (10)	\$750 - \$1,500	As incurred	At startup	CPA
Legal Fees – Incorporation	\$500 - \$1,500	Lump sum	At incorporation date	Attorney
Additional Funds - First 3 Months (11)	\$81,690 - \$118,900	As incurred	1/3 each month as incurred	Employees, Suppliers, Utilities, PDRI
<b>TOTAL</b>	<b>\$191,740 - \$517,000</b>			

### **NOTES TO ITEM 7:**

The preceding table sets forth your estimated initial investment in a base territory with a population of 500,000. All fees paid to PDRI are not refundable unless otherwise indicated. You should be aware that fees paid to third parties may not be refundable.

(1) For territories with populations up to 500,000, the franchise fee is \$0.20/person of population (or \$100,000 for 500,000 in population). For territories with populations over 500,000, the franchise fee is calculated the same up to the first 500,000, with an additional \$0.10 per person for each person above 500,000. The franchise fee is payable with at least 50% in cash upon signing the franchise agreement and the balance may be financed in the form of a four-year promissory note with an APR of 7%. See Item 10 for more on financing. PDRI does not set a maximum franchise fee, as the franchise fee is based on the size of the population in the territory. However, PDRI does not sell a single franchise with a territory having a population in excess of 800,000. See Item 5 above.

At the sole option of PDRI, PDRI reserves the right during classroom training described in Item 11, or at any point prior to opening, to rescind the Franchise Agreement and refund to you within 5 business days all of the franchise fee paid by you to PDRI if, in the reasonable determination of PDRI, you fail to meet PDRI's performance standards evidenced through evaluations determined by classroom training and personal interviews. PDRI will not refund any portion of the franchise fee under any other circumstances. In the event of such termination, you would be bound by the covenant not to compete, trade secret covenants and the arbitration provisions described in Item 17.

(2) There are no real estate or build out requirements. PDRI requires you to maintain an office in your franchise territory dedicated solely to the operation of the franchise. Franchisees usually rent offices in strip centers, light industrial parks, or suburban office parks. Typical rent for a start-up office is \$2,000 to \$5,000 per month. If you operate an existing restoration business, PDRI does not have a formal conversion program, but PDRI will work with you to convert your existing business into a PDRI franchise.

(3) We strongly advise and encourage you to spend a significant amount on marketing and advertising your franchise in connection with its grand opening, however, you are not required to spend a minimum amount. Your actual costs in marketing and advertising your franchise will significantly vary based upon the market you are in, and the extent and type of advertising you elect to purchase. We may, in our sole discretion and as we deem appropriate, provide you with assistance or guidance in marketing and advertising the opening of your business. All marketing and advertising must comply with PDRI's standards and specifications, as more fully described in Item 11 of this Disclosure Document.

(4) You must buy or lease a computer system that is compatible with the PDRI Common Software. PDRI reserves the right to designate the hardware platform including the brand, the application software and the operation software. You may purchase or lease from any available supplier. Currently, you may purchase a compatible system for between \$8,000 and \$20,000, which includes a server computer and two PC workstations, one printer and PC software. Franchisees are often able to obtain lease terms for the computer system based on their financial position. You must also purchase or lease a fax machine, a photocopier, and a scanner and an Internet connection is required. In addition, you are required to immediately provide emergency services as part of your franchise operation. The low figure in this chart reflects the initial payment required for a lease or installment purchase of the computer system and emergency services equipment, while the high figure reflects purchase of the equipment. See Items 8 and 11 for a description of the computer system. You are required to use the Common Software designated by PDRI in conjunction with the Xactimate™ or Symbility estimating systems. (See Items 6 and 8 for more information). While PDRI has assumed the billing responsibility from Xactimate™ to secure favorable pricing for the Network, you are responsible for costs of obtaining, installing and maintaining the Xactimate™ estimating system, including all license fees associated with its possession, use or operation. See Item 11 for more information about computer software and hardware.

(5) You must lease or purchase a full-sized extended van which must be delivered to you before you open your franchise. The low-end estimate provided is for the cost of three monthly lease payments and the down payment for a new vehicle, with a four year lease term. The cost of the vehicle will vary depending upon the make, model and age of the vehicle; and, as of the date of this disclosure document, the purchase price of a three-quarter ton van should range from \$27,000 to \$65,000, including the purchase and installation of the decals and storage racks for holding your equipment in accordance with PDRI's specifications. The range in prices is dependent on the options you choose. The high-end estimate includes the purchase price described above as well as the purchase of a vehicle mount, which is optional and costs between \$15,000 and \$30,000. The truck mount list pricing ranges between \$15,000 and \$30,000 As you will

transport drying equipment in the van, the van must be large enough to hold the drying equipment and other supplies and equipment, as well as the storage racks installed to hold the drying equipment. The current negotiated rates with our partners at GM and Mercedes Benz are as follows: Full-Size Extended Van - 2021 3500 Express Extended Van GM: \$30,500; and 170 Extended MB Sprinter (Plus Options): \$50,900.

(6) You must purchase a start-up equipment package to operate your business before you open your franchise. PDRI has arranged with multiple suppliers to have PDRI's standard equipment and proprietary chemical package from our chemical partner available to franchises, but the equipment is available from any supplier. Some suppliers may permit you to finance the cost of the equipment depending on your credit rating. While the exact terms and rates of such financing will depend on your supplier and your credit rating, you will generally be required to make a down payment of at least 10% of the purchase price of the equipment.

(7) You will incur significant travel and lodging expenses during the training program period, including round trip airfare to Jacksonville, car rental, hotel, and meals for three weeks. PDRI estimates your travel and living expenses during the three-week training period will be \$5,000 - \$7,500.

(8) Insurance costs due at start-up will range from approximately \$10,000 to \$16,000 based on the current insurance market, which fluctuates considerably. Franchises in the State of New York will have higher requirements based on New York law, which could increase this estimate. Other states may also implement similar requirements, and we strongly recommend that you investigate the impact of applicable state laws on your insurance costs prior to entering into a Franchise Agreement. During the pandemic, we recommend that you begin your search for insurance as soon as possible due to potential delays in obtaining the required insurance.

(9) The requirements for individual or company licensing and/or certification vary substantially from state to state and may further vary from city to city, or county to county, within a state. There also may be delays in obtaining the proper licensing due to issues raised in some jurisdictions related to the pandemic. You should determine what licensing or certification requirements are imposed by the various governmental bodies in the locations where you expect to establish a Paul Davis Restoration ® franchise. These licenses may require examinations and/or significant fees. It is your responsibility to determine what licensing requirements are applicable, as all applicable licenses must be in place before you open your franchise.

(10) Initial CPA fees to set up the accounting for a franchise will generally range between \$750 and \$1,500. The CPA may waive or reduce the initial set-up charge as an incentive to get a new client. CPA fees on a resale may be higher.

(11) PDRI estimates that you should have minimum working capital of \$400,000. Working capital is the difference between current assets and current liabilities, but may include unused lines of credit. Working capital needs are heavily influenced by draws on jobs, size of jobs, consistent collection of receivables and good business practices with respect to payables. Because of the nature of cash flow in the insurance-related construction business, you need to have sufficient working capital, or a line of credit, to cover payments for material, labor and commissions on jobs

that are too small for a draw schedule or for insurance companies that don't give draws. The amount of the credit or working capital required will fluctuate as your business grows. Following the initial year of operations, you are expected to maintain working capital, including established and unused lines of credit, equal to 10% of the previous year's sales or \$400,000, whichever is greater. Working capital needs may be higher on a resale, depending on the business.

Salary or wages for a job cost accountant are forecast to range between \$2,500 and \$5,000 per month plus 10% for payroll taxes and other benefits.

As a new franchisee, you must assess whether or not you intend to take a salary or draw from the business during the startup period. If funds are available outside the business to cover personal living expenses, we recommend that you take no salary or draw. However, if the new franchisee is dependent on salary or draw from the business to cover personal living expenses, you must include these in startup costs. We have estimated up to \$3,000/month plus 10% for taxes and benefits. You would have to adjust the startup costs upward for any withdrawals in excess of \$3,000/month.

In addition, you will be responsible for certain monthly fees including the Computer Software Fee, Joint Quality Review Fee, Strategic Marketing Plan Fee, Web Site Hosting Fee, Call Center Fee, Program estimating (FAST), QA Assist and QA Fees. (See Item 6 for additional information). You are also responsible for local IT support.

The estimates in this Item 7 are based on our experience as a franchisor and our general experience in the industry.

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

You must purchase or lease computer hardware to operate the Common Software. This hardware is described in detail in Item 11. You may purchase or lease from any supplier of the required hardware. This hardware is "off the shelf" in its configuration, so it is available from many different sources. You pay an on-going software support fee of \$75 per month to PDRI, in addition to the required third party software fees. In 2021, PDRI billed \$171,300 to its franchisees for use of required software. This represents 0.47% of the total 2021 PDRI revenues of \$36,638,034.

In connection with your use of the PDRI Common Software, you are required to obtain the Xactimate<sup>™</sup> estimating software from Xactware, Inc. While PDRI has assumed the billing responsibility from Xactware to secure favorable pricing for those in the network, you are responsible for all costs and license fees associated with the Xactimate<sup>™</sup> software.

PDRI has negotiated national accounts with several suppliers of materials that you may use in the course of your business. None of PDRI's officers own an interest in any of these suppliers. Current agreements with suppliers provide discounts and rebates on various materials which you and your subcontractors may use. In 2021, rebates were paid to Paul Davis franchisees by Sherwin Williams in the amount of \$157,047; and Lowes in the amount of \$165,704; and Sunbelt in the

amount of \$31,293. Your use of these supplies from these suppliers is voluntary. PDRI also receives rebates from vendors ranging from 0.5% to 5% of franchisee purchases.

Although PDRI negotiates national accounts with several suppliers, PDRI does not itself provide any material benefits to you based on your use of those accounts, but franchisees may also receive rebates under these programs. The benefit to you is derived from the discount offered by the supplier, not PDRI.

Because the use of a supplier is voluntary, PDRI does not have a procedure in place for supplier approval or disapproval. As such, there is no set time period for when you would receive notification of approval or disapproval.

You must procure and maintain insurance policies meeting PDRI's minimum coverage requirements. We may require additional coverage limits, or bond requirements, in connection with servicing losses exceeding \$500,000 (a "Complex Loss"). Each policy shall provide a separate endorsement naming PDRI and its designees as additional named insureds; shall provide that the policy is primary over the coverage of PDRI; cannot be canceled without 30 days prior written notice to PDRI; and shall insure your contractual liability. Any failure to have the appropriate insurance shall be considered a material breach of the Franchise Agreement. Prior to the commencement of operations, you must furnish a Certificate of Insurance reflecting that the required insurance coverage is in effect and, if requested, a copy of all such insurance policies. All policies shall be renewed, and you must provide PDRI with a renewal Certificate of Insurance for each policy prior to the expiration of the prior policy. PDRI uses a Third Party Vendor, Profile Gorilla, as a depository for all proof of insurance, licensing, IICRC, Mold and Lead certificates as well as background checks for your employees and subcontractor employees.

You are not required to purchase any goods or services from PDRI or any of its affiliates and neither PDRI nor its affiliates are currently approved suppliers. PDRI affiliates do not derive any income from required purchases or leases, unless as stated above. Except for the on-going software support fee described in this Item 8, PDRI receives no revenue, rebates or other material consideration as a result of required purchases or leases. There are no purchasing or distribution cooperatives.

PDRI estimates that the total amount of your purchases for goods and services from approved suppliers or in accordance with our specifications will range from 75% to 85% of your purchases in establishing your business and 30% to 40% of your overall purchases in operating your business.

## ITEM 9: FRANCHISEE'S OBLIGATIONS

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

	<b>Obligation</b>	<b>Section in Agreement</b>	<b>Disclosure Document Item</b>
A.	Site selection and acquisition/lease	Article 4	Item 11
B.	Pre-opening purchases/leases	Article 9	Item 11
C.	Site development and other pre-opening requirements	Article 6	Item 11
D.	Initial and ongoing training	Article 8	Item 11
E.	Opening	Article 6	Item 11
F.	Fees	Article 2, 3	Item 5, 6
G.	Compliance with standards and policies/operating manual	Article 6, 10	Item 11
H.	Trademarks and proprietary information	Article 1	Item 13
I.	Restrictions on products/services offered	Article 6	Item 8
J.	Warranty and customer service requirements	Article 3, 6	Not Applicable
K.	Territorial development and sales quotas	Article 4	Item 12
L.	Ongoing product/service purchases	Article 9	Item 8
M.	Maintenance, appearance and remodeling requirements	None	Not Applicable
N.	Insurance	Article 12	Item 7
O.	Advertising	Article 11	Item 6, 7
P.	Indemnification	Article 13	Not Applicable
Q.	Owner's participation/ management/ staffing	Article 6	Item 15
R.	Records/reports	Article 6	Item 21
S.	Inspections/audits	Article 6	Not Applicable
T.	Transfer	Article 20	Item 6, 17
U.	Renewal	Article 5	Item 6, 17
V.	Post-termination obligations	Article 19	Item 17
W.	Non-competition covenants	Article 22	Item 17
X.	Dispute resolution	Article 23	Item 17

## **ITEM 10: FINANCING**

PDRI offers financing for up to 50% of the amount of the initial franchise fee, or up to 67% of the reduced initial franchise fee for qualified veterans, with the remainder of the fee paid in cash. Financing will be extended for a 4-year period at an APR of 7%.

See Item 5 for determination of initial franchise fee. A copy of the Promissory Note showing the financing terms is attached as Exhibit F. Other than the Promissory Note, PDRI does not require any additional security interest in connection with the financing. Each owner of a franchise must individually sign the Promissory Note. The balance of the Promissory Note may be prepaid in whole or in part at any time without penalty or premium. If you do not pay on time or if you default on the Franchise Agreement or if you fail to abide by the terms of the PDRI Operations Manual, then you will be in default under the Promissory Note and you will automatically be in default under the Franchise Agreement. If you are in default under the Promissory Note or if you sell a portion or all of your interest in the Franchise Agreement, PDRI can call the Promissory Note and demand immediate payment of the full outstanding balance and obtain court costs and attorney's fees if a collection action is necessary. You will also pay all costs and expenses including reasonable attorney's fees and costs incurred by PDRI in connection with an appeal of any proceeding respecting the payment or enforceability of the Promissory Note. You waive your rights to presentment, protest, notice of protest, and notice of dishonor under the Promissory Note. The terms of the Promissory Note do not bar you from asserting a defense against PDRI.

PDRI does not arrange financing from other sources. Commercial paper from franchisees has not been and is not sold or assigned to anyone, and PDRI has no plans to do so. PDRI does not receive direct or indirect payments for placing financing. PDRI does not guarantee your obligations to third parties.

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

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

### **Pre-Opening Assistance**

Before you open your business, PDRI will:

- A. Designate your franchise territory (Franchise Agreement, Section 4.1);
- B. Provide you with access to the Common Software (Franchise Agreement, Section 9.1);
- C. Provide you with a Paul Davis Restoration® initial printing, sales and marketing supplies package (Franchise Agreement, Section 9.2) [not applicable to a resale or renewal of an existing franchise];

- D. Assign you to a District Council in your area of the U.S. (Franchise Agreement, Sections 10.1 and 10.2);
- E. Contribute \$1,000 to your Guarantee Fund account in Completion Services, Inc. (Franchise Agreement, Section 3.7(c)) [not applicable in the case of a resale or renewal of an existing franchise];
- F. Establish a franchise specific web site with a unique URL for your use. The Strategic Marketing Fund will be responsible for the on-going monthly web site hosting fees which are currently \$30 - \$60 per month (Franchise Agreement Section 11.2); and
- G. Provide your designated representative with access to the online training and the classroom training described below.
- H. Provide you with an iPad to begin your on-line training and for use at owner's school. You will also be provided a disto meter.
- I. Provide you with training on the Paul Davis Learning Management System (Paul Davis University). You will be asked to complete training on Touchless Service, Personal Protective Equipment and Chemicals needed for COVID cleaning and protection prior to opening.

The typical length of time between the earlier of signing the Franchise Agreement or paying the initial franchise fee and the opening of a start-up PDRI franchise is less than 4 months. The principal time constraints will be your ability to complete the online training and attend the next available training class, and your ability to obtain a contractor's license in the state where you will do business. You are solely responsible for obtaining the insurance, licenses and permits required to operate the business in your territory and ensuring your compliance with all applicable laws and regulations. You are required to begin operating your franchise within six (6) weeks after you finish your classroom training program (Franchise Agreement, Sections 6.1 and 17.2(c)).

### **Post-Opening Assistance**

During the operation of the franchise business, PDRI will provide the following:

1. (a) Field training will be administered at your place of business for a period of up to forty (40) man hours. These hours may not be consecutive and will be divided amongst multiple trainers responsible for field launching franchises. Field trainers will provide start-up field operations, marketing and/or financial training assistance to you.

(b) PDRI will also provide a job cost accounting trainer who will train your job cost accountant on the Common Software and assist in setting up the office via computer streaming or, at the option of PDRI, by an on-site visit to your location (for a period of thirty-two (32) hours over multiple working days). Your job cost accountant is required to receive this training (Franchise Agreement, Section 8.5).

2. Upon completion of the classroom and on-site training and during your initial 8 week period of operation (this initial 8 week period may be extended at PDRI's discretion), PDRI may review and approve your estimates or require the use of FAST at no cost to you during this initial period. You must submit copies of all estimates prepared in the course of your business during this period (Franchise Agreement, Section 8.4).

3. Provide you with access to an electronic copy of its Operations Manual, which contains required operational standards and procedures that apply to all franchisees. The Operations Manual is proprietary and remains the property of PDRI. PDRI can modify the Operations Manual with the approval of a majority of the operating franchises, working through the District Councils (Franchise Agreement, Section 10.1). The table of contents of the Operations Manual is contained in Exhibit H.

## **TRAINING**

### **OWNER'S TRAINING PROGRAM**

<b><u>2021 PDR Training Topics</u></b>	<b><u>Hours of Classroom Training</u></b>	<b><u>Hours of On-the-Job Training</u></b>	<b><u>Location</u></b>
Estimating, Project Management, Job Management (RMS) and General Operations	58 (50 of these hours are online training)	4	Jacksonville, FL or Designated Location
The Paul Davis Brand	6 (2 of these hours are online training)	2	Jacksonville, FL or Designated Location
IICRC WRT/ASD combo	40		Jacksonville, FL or Designated Location
Mold Remediation	8		Jacksonville, FL or Designated Location
Marketing and Sales	40 (5 of these hours are online training)	16	Jacksonville, FL or Designated Location
Lead	8		Jacksonville, FL or Designated Location
IICRC FSRT – Fire	16		Jacksonville, FL or Designated Location
GM/FinMgmt/JCA/HR/QA	36 (6 of these hours are online training)		Jacksonville, FL or Designated Location
IT Systems and Loss Document Process Training	20 (18 of these hours are online training)		Jacksonville, FL or Designated Location
On-site field training by Franchise Launch		40	Designated Franchisee location
On-site field Launch by Franchise Launch		40	Franchise Location
<b>Total</b>	<b>232</b>	<b>102</b>	Jacksonville, FL or Designated Location

<b>JCA Training</b>
16 hours of classroom
16 hours online
16-24 hours onsite – Launch Week

The initial training program is mandatory for each new franchisee (including resales of existing franchises), regardless of the population size of the territory. Before you begin operations, you must complete the classroom training to the satisfaction of PDRI. Some of the classroom training noted above is completed online. Operations are deemed to begin when you first offer your services to the public, which would include one or more of the following: having telephone or mail service in your name; contracting for services with third parties; or making estimates and contacting insurance adjusters or property owners. In addition, you must satisfactorily complete the on-site field training program and your Job Cost Accountant (“JCA”) must satisfactorily complete the web streaming or on-site job cost accountant training program, which will take place prior to and after you begin operations. In all cases, PDRI will determine whether or not training has been satisfactorily completed.

PDRI’s training program is conducted via online courses, onsite field training and classroom training offered approximately four times per year. All classroom training takes place at PDRI’s Jacksonville, Florida headquarters, at another suitable facility in Jacksonville, Florida, or at such other location, including virtually, as selected by PDRI. Generally, the training program consists of: (i) up to three weeks of new owner training school conducted in Jacksonville, Florida; (ii) one week of new owner field Launch training conducted at the franchise location; (iii) one week of new owner field mentor training conducted at an existing franchise location to be determined by PDRI; (iv) up to three weeks of online training prior to attending training school; and, (v) PDRI may, at its discretion, require a three day advanced new owner training class in Jacksonville approximately six months after completion of new owner school.. For new franchises (not transfers or resales) PDRI does not charge a separate fee for the initial training program for you and your Job Cost Accountant, as it is included in your initial franchise fee. However, you must pay all personal expenses, including travel, meals, lodging, and transportation, incurred during the classroom training program. You may choose to have additional personnel attend the initial training program. Classroom JCA training is available for no additional cost. However, for each additional person who attends Owner’s School, you must pay a training fee of \$5,000 per person to PDRI. If you purchased your franchise from an existing franchisee, for which you did not pay any initial franchise fee to PDRI, you must pay an Owner’s training fee to PDRI for your training program as follows:

**New Owners/GM Training Fees:**

- **\$18,000 (Training Program B)** this includes:
- Owner/GM FULL training & Full Launch experience.

**Resale Owners/GM Training Fees:**

- **\$11,000 (Training Program A)** this includes:
- Owner/GM Partial Owners School training (\$5000) and,
- Launch Coaching, Support & Field Launch/Training (\$6000)

GM (only) Training Fees:

- \$5,000 (**Training Program A or B**)
- This includes Owner/GM FULL or Partial training and,
- Launch coaching through Owners School Graduation.

**Training During COVID.** Paul Davis reserves the right to modify the above training schedule to ensure your safety during the COVID pandemic. During 2021, a modified owner school included the following:

- a. Week 1 Owner School in Jacksonville, Florida. (ASD/WRT Training).
- b. Week 2 Owner and General Manager School modified with Virtual Training options.
- c. Week 3 Owner and General Manager School modified with Virtual Training options.

The following are PDRI's instructors:

Denna Wright instructs PDRI's franchisees in job costing. Ms. Wright has 30 years of experience with PDRI and 38 years of experience in the field.

Imzan Ogeer is a Controller and instructs PDRI's franchisees in franchise financial management. Mr. Ogeer has 7 years of experience with PDRI and 27 years of experience in the field.

Leslie Anderson is the Senior Vice President of Training and Franchise Launch and instructs franchises in marketing, sales, biohazard, trauma, ASD, WRT, Lead, Mold, crime scene and hoarding classes. Ms. Anderson has 11 years of experience with PDRI and 22 years of experience in the field.

Eric Taylor is the VP of Franchise Launch and instructs PDRI's franchisees in job scoping, estimating, Xactimate<sup>™</sup>, project management, Lead and franchise management including business planning. As a new franchisee, you will be enrolled in the Franchise Launch program, and Mr. Taylor will assist you in the start-up of your franchise for the first 12 months. Mr. Taylor has 12 years' experience with PDRI and 20 years of experience in the field.

Keith Becher is the Regional Launch Director coaching PDRI's franchisees in all aspects of their operation, including franchise management and business planning. As a new franchisee, Mr. Becher will assist you beginning on year 2 of your franchise operation. Mr. Becher has over 5 years' experience with PDRI as a Regional Business Consultant and 22 years of experience as a Paul Davis franchise owner.

Aaron Bandy is a Launch Coach and Regional Business Consultant assisting PDRI's franchisees in all aspects of their operation, including franchise management and business planning. As a new franchisee, Mr. Bandy will assist you beginning on year 3 of your franchise operation. Mr. Bandy has 2 years' experience with PDRI as a Regional Business Consultant and 30 years of experience in operations and franchising.

Various members of the PDRI Operations, Technology, QA and Marketing Teams also contribute to the training.

Once your franchise has reached \$1,000,000 in cumulative annual Gross Sales in any one calendar year or at the request of Franchise Launch or your Regional Business Consultant, you may be required to attend additional training in Jacksonville, Florida at the then prevailing rate.

Although PDRI does not currently require recertification training, PDRI reserves the right to implement such a program upon 60 days' notice. If PDRI implements such a program, you agree to attend a 3-5 day recertification training program at PDRI's place of business in Jacksonville, Florida at least once every 3 years and to pay PDRI's recertification training fees as determined by PDRI, but not to exceed the daily training fee then charged to start up franchisees who are acquiring a franchise at the time of your training.

## **COMPUTER REQUIREMENTS**

In addition to the iPad and Disto meter PDRI will provide you prior to training, you must purchase or lease computer hardware for your office sufficient to operate the applications required to perform work as a Paul Davis franchise. Software applications required to perform work include, but not limited to, QuickBooks Online, RMS, Xactimate™, Xactanalysis, Symbility, MICA, Symbility, Salesforce, Matterport, Webroot, Vonage, and MS Office 365. Whichever computer system you acquire, the operating system must be of the type that is still supported by the vendor and not on their end-of-life list. Check with the computer manufacturer for confirmation.

RMS is our job management and Common Software, which is completely web based. Therefore, any Windows or Mac based computer, supported by Microsoft or Apple, with internet access is appropriate. The Common Software also includes a mobile application. A smart phone such as iPhone or Android is required at your expense.

Xactimate™ and Symbility are third party estimating software applications. Both are available as web based applications which may be appropriate for your business. If you decide on the desktop version of the software instead, then consult with the vendor for minimum computer requirements.

MICA is a third party dry tracking software application. The software is available for both Windows and iPad devices. The vendor's website should be referenced for the latest minimum requirements.

QuickBooks Online is our web based accounting software. The number of people requiring access to QuickBooks will determine the version most appropriate for your office. Qvinci is our financial reporting software that integrates with Quickbooks where an active connection is required between the two programs.

Email is how we communicate electronically. All franchises must subscribe to Microsoft Office 365 through PDRI to receive an "@pauldavis.com" email address. PDRI will provide the online email and web based applications at no charge to you. Desktop versions of the Microsoft Suite are available at market rates.

Minimum computer requirements for software not specifically mentioned here should be acquired from the software vendor. PDRI recommends common best practices regarding the maintenance and support of your computer system. Best practices include establishing a relationship with a local computer technician to assist with computer problems. A backup and downtime plan should be established to protect your data, especially your QuickBooks financial data.

The data generated and stored on your computer system includes customer lists, sales volumes, job estimates and reports and other general information. PDRI does not have independent access to the information stored on your computer system.

You are required to obtain, at your expense, the Common Software designated by PDRI. The estimated annual costs associated with the Common Software (RMS) will total approximately \$7,000, which includes the cost of the program, implementation, training and support. You will also be required to pay the other software fees itemized in Item 6 of this document, including Xactimate,<sup>tm</sup> or Symbility<sup>TM</sup> estimating software. Although these are the most commonly used third party estimating systems for estimating property claims, some customers may require you to use a different estimating system at your expense. PDRI has elected to designate a required software program to aggregate financial data to help you benchmark your financial data to other similarly situated franchisees. You must utilize the software designated by PDRI, currently Qvinci. Currently, PDRI pays for the cost of the software, but you may be required to pay any required fees or costs in the future.

PDRI will provide to you additional equipment specifications upon request. In many situations, you will need to exceed the specifications listed. PDRI estimates that the initial cost to purchase or lease such computer and other electronic equipment ranges between \$13,000 and \$25,000. Work with your selected vendor to create a computer system that provides you with solutions to your current needs and meets your planned growth.

### **ADVERTISING**

PDRI provides creative for advertising, promotional items, collateral and marketing support and coaching for you and your sales and marketing team. You will have access to Salesforce, a marketing portal paid for by the Strategic Marketing Fund, where you will be able to manage your customer and client contacts, customize and send e-mail campaigns, customize and print marketing material, create optimized sales routes, log notes and set reminders from sales calls and communicate targeted local marketing campaigns. You may also develop advertising and promotional materials for your own use, at your own cost. PDRI or its designated representative must approve your advertising materials in advance and in writing. Such approval shall not be unreasonably withheld. PDRI does not require that you participate in any advertising program other than the Strategic Marketing Plan described below.

PDRI will establish a franchise specific web site for your use in operating the franchise. You will be responsible to maintain and update the web site with pre-approved PDRI content and the Strategic Marketing Plan will pay the monthly web site hosting fee.

You are required to participate in the Strategic Marketing Plan (the “SMP”) established by the General Council, which is made up of all operating franchisees (See Item 6, Note 1, for more information about the General Council). In 2011, the General Council delegated to PDRI management of the fund with NEC oversight for three years. This was made permanent in 2016 and has been approved by the National Executive Committee and by District vote. The SMP is a cooperative program which requires financial contributions from each franchisee, as described in Item 6, under the heading “Strategic Marketing Plan Fee”. You are required to contribute to the SMP cooperative program an amount equal to 0.75% of invoiced sales up to \$5,000,000 in sales plus 0.50% of invoiced sales at \$5,000,001 and above to the cap of \$12,078,825. The maximum amount per franchise and/or common majority owned Franchised businesses in contiguous territories shall be \$72,894 until such time as the Network increases the cap or otherwise changes the funding of the SMP. Such calculation may be subject to change based on a 2/3rds vote of the General Council authorizing such change.

The General Council’s National Executive Committee (“NEC”) has the final approval of the budget proposed by PDRI. Changes to the SMP requires majority approval of the franchise members of the NEC and PDRI and may require two-thirds approval of the active representatives at District Council meetings. You may request an accounting of the SMP fund in writing from PDRI. PDRI will supply you with the accounting statements by first class mail. PDRI has used an outside regional advertising agency to create and place advertising in regional and national media.

The funds collected by the General Council as part of the SMP were used as follows for the fiscal year ended December 31, 2021:

Production	10%
Media Placement	17%
Administrative Expenses	0%
Business Development and Field Marketing Staff	60%
Other:	
Public Relations / Communications	4%
Quality Surveys and Awards	2%
Franchisee and Industry Training	7%
TOTAL	<hr/> 100%

Advertising funds are not used to solicit new franchisees. Advertising funds that are not spent in the fiscal year in which they are collected, will be accrued and used in subsequent fiscal years.

PDRI does not have the power to require cooperatives to be formed, changed, dissolved or merged unilaterally. These actions require a two-thirds vote of the franchisees and PDRI. Cooperatives may be established by all members of a Designated Marketing Area (DMA) with an Addendum to the Franchise Agreement. Franchisees who purchase a franchise from an existing Paul Davis franchisee that is a member of a marketing cooperative will be required to participate in the cooperative pursuant to the terms of the Addendum.

You may not use PDRI's name or trademarks in connection with any electronic commerce or other electronic transmission, including email communications or interactive web sites, without the prior written approval of PDRI or its designated representative. Such approval shall not be unreasonably withheld.

### **SITE SELECTION**

There are no real estate or build out requirements and PDRI does not approve the site for your Franchise Business. PDRI requires you to maintain an office in a commercial location within your territory dedicated solely to the operation of the franchise, but PDRI does not approve the location of your office or the area that you select for your office site. Franchisees usually rent offices in strip centers, light industrial parks, or suburban office parks.

### **ITEM 12: TERRITORY**

You conduct your franchise operations within a specific franchise territory described in the Franchise Agreement. PDRI does not establish a minimum size for any territory and the size and configuration of the franchise territory is based on population density, geographic location and other factors. The size of your franchise territory is determined by you and PDRI before you sign the Franchise Agreement (see Item 5, Initial Franchise Fee).

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that are owned by us or our affiliate, or from other channels of distribution or competitive brands that we control, as discussed more fully below. PDRI may enter into regional or national account program relationships with insurance companies, third party administrators, and property managers under which PDRI may assign jobs to franchisees. You do not have the right to enter into regional or national accounts without our prior written consent. If you do not participate, refuse assigned claims or do not qualify for any such regional or national account programs, PDRI may assign this regional or national account program work in your territory to other franchisees. In addition, franchisees operating Paul Davis Emergency Services Businesses may operate in your territory.

Your office must be located in your franchise territory. You are not required to seek PDRI's approval to re-locate your office within your franchise territory. You do not have any options, rights of first refusal or similar rights to acquire additional franchises in contiguous or other territories.

As to any territory covered by a Franchise Agreement, PDRI has not currently established a company-owned Paul Davis outlet office using our service marks and trademarks, with the exception of Paul Davis National, which may service the entire United States. While currently not self performing work, Paul Davis National may offer and sell the same type of services as your franchised business.

Except as otherwise provided in this Disclosure Document, PDRI agrees not to allow another franchisee to establish an office offering the same Paul Davis franchise services in your

franchise territory. PDRI may use alternative distribution, including the Internet, within your territory under different trademarks, but PDRI does not offer any compensation to franchisees for soliciting or accepting orders from within a franchisee's territory. PDRI may grant similar franchises using our trademarks outside of your territory.

Your territory will be identified using zip code boundaries, which are subject to change. These changes are outside of the control of PDRI. Other than changes to the zip code boundaries used to define your territory, PDRI has no right to alter the territory granted to you under the Franchise Agreement. Renewal of your territory may be dependent upon the achievement of a certain sales volume, market penetration, or any other contingency, apart from your obligations under the Franchise Agreement.



In addition to the Paul Davis Emergency Services Business franchisees, some of our affiliates listed in Item 1 of this disclosure document offer franchises under different service-marks or trademarks which provide services that may be similar to, but do not necessarily compete with, some of the services you are authorized to provide as a PDRI franchisee.

We and our affiliates have and reserve the right, in our sole discretion, to: (i) establish and operate, and license third parties the right to establish and operate, other franchised businesses using the service-marks or trademarks and system at any location(s) outside of your territory; (ii) open and operate, or license third parties the right to open or operate, businesses that offer products and services similar to your franchised business under marks other than PDRI's service-marks or trademarks at any location; (iii) merge with, acquire, or be acquired by, including through purchase or sale of substantially all assets, any other person or entity, including any competitor of us or you, and continue to conduct and franchise others the right to conduct in any location any business engaged in by the merging, acquiring, acquired person or entity, including any business directly competitive with you and to identify such outlets or businesses as being related to or an affiliate of PDR or PDRI; and (v) use our service-marks, trademarks and system, and license others to use the service-marks, trademarks, and system to engage in any other activities not expressly prohibited under the Franchise Agreement within or outside your territory.

### **ITEM 13: TRADEMARKS**

PDRI grants each franchisee the license to use the name "Paul Davis Restoration®" and to use the PD® and PAULDAVIS® logo and phrase RECOVER RECONSTRUCT RESTORE® shown on the cover page of this disclosure document. You may use the names and logos on stationery, in advertising approved by PDRI and for other purposes consistent with the operation of the franchise and in accordance with the Operations Manual. You may not use any PDRI service mark or name to sell an unauthorized service or product or in a manner not authorized in writing by PDRI. You are also not authorized to use the name "Paul Davis" or any configuration of "Paul Davis" in the name of your business entity.

PDRI has registered the following marks with the U.S. Patent and Trademark Office:

MARK	REGISTRATION NO.	REGISTRATION DATE	REGISTER
	1,661,053	October 15, 1991	Principal
 <b>PAUL DAVIS RESTORATION</b>	2,530,592	January 15, 2002	Principal
<b>PAULDAVIS</b> RECOVER • RECONSTRUCT • RESTORE	5,096,323	December 6, 2016	Principal
THIS IS NO TIME FOR SECOND BEST	5,187,710	April 18, 2017	Principal
YOUR BEST FRIEND ON YOUR WORST DAY	5,382,026	January 16, 2018	Principal
<i>the</i> <b>PAULDAVIS</b> <i>way</i>	5,950,993	December 31, 2019	Principal

There have never been any determinations by the U.S. Patent and Trademark Office, the Trademark Trial and Appeal Board or any state trademark administrator or court of any pending infringement, opposition or cancellation proceeding or any pending material litigation involving either of the above-referenced marks which is relevant to its use. PDRI has filed all required affidavits.

There are no agreements in effect which significantly limit the right of PDRI to use or license the use of its names and logos in any manner material to the franchise. PDRI does not know of any superior prior rights or infringing uses that could materially affect your use of its service marks.

You must comply with the Operations Manual guidelines when you use the names and logos in operating the franchise. PDRI assumes all responsibility to protect any rights to the names and logos. You are not obligated to defend against claims of infringement or unfair competition with respect to such names and logos but you are obligated to notify PDRI immediately if you

learn about an infringement of or challenge to your use of the PDRI service marks. PDRI will take the action we deem appropriate and if we ask you to assist us in defending the service marks, we will reimburse you for all costs which you incur in doing so, if such costs are approved by PDRI in writing.

You must modify or discontinue use of any PDRI service mark if PDRI modifies or discontinues it for all of our franchisees. If this happens, PDRI will not reimburse you for expenses you incur in changing signage or other uses of the service mark. Your obligations under the Franchise Agreement continue if any PDRI service mark is modified or discontinued.

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

PDRI does not own any patents which are material to the franchise. PDRI claims copyrights on its Operations Manual although it has not filed an application for a copyright registration for the Operations Manual.

Item 11 describes limitations on your use of the Operations Manual. Any material changes to the Operations Manual require vote of the Districts and General Council and if it is changed, you must comply with these changes and PDRI will not reimburse you for any expenses you incur in making these changes.

You will receive certain secret and confidential information of PDRI consisting of customer lists; contract forms; appraisal techniques; ideas and data contained in the Common Software and Operations Manual; knowledge of sales and profit performance of PDRI's other franchisees; sources of construction suppliers; methods of selecting subcontractors and other methods, techniques, know-how, formulas and data relating to the operation and franchising of a Paul Davis Restoration franchise, but not including information or techniques in the public domain and generally known and used by general contractors and cleaning service suppliers other than through disclosure by you. All of the foregoing is referred to as PDRI's "Trade Secrets."

PDRI shall disclose the Trade Secrets to you by lending to you, for the term of the Franchise Agreement, the Operations Manual and other written materials, and the Common Software, all containing the Trade Secrets, as well as through training and assistance provided to you and by and through the performance of PDRI's other obligations under the Franchise Agreement. PDRI is the sole owner of all Trade Secrets, and you shall acquire no interest in the Trade Secrets other than the right to use them in the development and operation of the Franchise Business during the term of the Franchise Agreement. Any use or duplication of the Trade Secrets except as expressly permitted by the Franchise Agreement shall constitute an unfair method of competition and PDRI shall suffer irreparable injury from such use or duplication.

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

Either the individual franchise owner or a designated representative, who must be approved by PDRI, must personally participate in franchise operations. The designated representative of each franchise must have completed the full training program and manage the franchise on a full-

time basis. The designated operator cannot have an interest in or business relationship with any competitor of PDRI or its franchisees and he or she must sign an agreement to maintain confidentiality of the trade secrets described in Item 14 and to abide by the covenants not to compete described in Item 17. Additionally, each of your employees, as well as members of their immediate families who will have access to our Trade Secrets, are required to sign a Confidentiality and Non-Compete Agreement in the form attached as Exhibit D to the Franchise Agreement prior to hiring.

Your business entity and all of your shareholders, partners, or members/managers (as applicable) must guarantee the payment of all of your monetary obligations under the Franchise Agreement, and ownership interests in your business entity must match the individual ownership percentages outlined in the Franchise Agreement. All such personal guarantors also agree to be bound by the restrictions upon your activities upon transfer, termination or expiration and nonrenewal of the Franchise Agreement. If you or your Principal Owner is married, then you or your Principal Owner's spouse must execute a spousal acknowledgment following the signature page of the Franchise Agreement that binds the spouse under the non-competition, non-disclosure and dispute resolution provisions of the Franchise Agreement.

#### **ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISE MAY SELL**

The Franchise Agreement limits the goods or services which you may sell to those offered in the franchise system. You must offer all services that PDRI designates as required in your Franchise Agreement. If the General Council establishes new services, you must offer them. There are no limits on the General Council's right to establish new services.

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

##### **THE FRANCHISE RELATIONSHIP**

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

	<b>Provision</b>	<b>Section in Franchise or Other Agreement</b>	<b>Summary</b>
a.	Length of the franchise term	Article 5	5 years
b.	Renewal or extension of the term	Article 5	Additional 5 years

	<b>Provision</b>	<b>Section in Franchise or Other Agreement</b>	<b>Summary</b>
c.	Requirements for franchisee to renew or extend	Article 5	Includes: notice of intent to renew or not renew at least 90 days but not more than 180 days prior to end of term; sign PDRI's then-current form of Franchise Agreement, which may have materially different terms and conditions from your original franchise agreement; bring computer hardware and other equipment up to then current standards; compliance throughout term and minimum sales for each of the prior two years of the greater of the national median sales amount for PDR offices in the Network or \$4.00 times the net population of the Franchise Territory; pay renewal fee
d.	Termination by franchisee	Not applicable	Not applicable
e.	Termination by franchisor without cause	Article 17	Not applicable
f.	Termination by franchisor with cause	Article 17	Unless your state law requires a longer period to cure, you have 15 days to cure certain defaults, such as nonpayment of fees; failure to pay suppliers; failure to operate in accordance with Operations Manual and other defaults listed in Section 17.1
g.	"Cause" defined - curable defaults	Article 17	Unless your state law requires a longer period to cure, you have 15 days to cure certain defaults, such as: nonpayment of fees; failure to pay suppliers; failure to operate in accordance with the Operations Manual; failure to procure, maintain, necessary licenses, certificates, or permits, and/or provide documentation evidencing compliance therewith; and other defaults listed in Section 17.1

	<b>Provision</b>	<b>Section in Franchise or Other Agreement</b>	<b>Summary</b>
h.	“Cause” defined - non-curable defaults	Article 17	No right to cure defaults such as: failure to timely begin operation; material or repeated misrepresentation in reporting gross sales; insolvency; non-approved assignment or transfer; conviction of a felony; three or more defaults within a rolling 12 month period; abandonment of the franchise business, which includes failure to report sales for three months or more; disclosure of confidential information or misuse of proprietary information, and other defaults listed in Section 17.2.
i.	Franchisee’s obligations on termination/nonrenewal	Article 19	Obligations include complete de-identification; payment of sums due; transfer of phone numbers and domain names; return of materials (see also r. below)
j.	Assignment of contract by franchisor	Article 20	No restriction of PDRI’s right to assign. No assignment will be made except to an assignee who, in the good faith and judgment of the Franchisor, is willing and able to assume the Franchisor’s obligations under the Franchise Agreement.
k.	“Transfer” by franchisee - definition	Article 20	Includes transfer of contract or assets, as well as any ownership change
l.	Franchisor approval of transfer by franchisee	Article 20	PDRI has right to approve all transfers, applying same criteria as to new franchisees
m.	Conditions for Franchisor’s approval of transfer	Article 20	New franchise qualified; transfer fee paid; training agreed to; transferee must execute new franchise agreement and agree to then current royalty and fee schedule; computer hardware and other equipment brought up to current standards, if necessary; your accounts settled

	<b>Provision</b>	<b>Section in Franchise or Other Agreement</b>	<b>Summary</b>
n.	Franchisor's right of first refusal to acquire franchisee's business	Article 20	PDRI has right to acquire on same terms as third-party offer
o.	Franchisor's option to purchase franchisee's business	Article 19	In the event of termination of the franchise agreement PDRI has the right to purchase the franchise business for fair market value
p.	Death or disability of franchisee	Article 20	Heir can inherit if conditions for approval (item m. above) are followed
q.	Non-competition covenants during the term of the franchise	Article 22	Cannot participate in competing business, disrupt employment of PDRI or PDRI affiliates, or divert business to a competitor
r.	Non-competition covenants after the franchise is terminated or expires	Article 22	No competing business for 2 years after termination within protected territory or in other PDRI territories, and can't contact former suppliers or customers for a competitive business purpose
s.	Modification of the agreement	Article 26	Only by mutual consent
t.	Integration/merger clause	Article 32	Only the terms of the Franchise Agreement are binding (subject to state law). Any other representations or promises outside of the disclosure document and franchise agreement will not be enforceable.
u.	Dispute resolution by arbitration or mediation	Article 23	All disputes (including those involving your officers and principals) must be submitted to binding arbitration under the Paul Davis internal arbitration system

	<b>Provision</b>	<b>Section in Franchise or Other Agreement</b>	<b>Summary</b>
v	Choice of forum	Article 23	Any controversy or claim arising out of or relating to the Franchise Agreement or the acquisition or operation of the franchise shall be settled by binding arbitration. Subject to state law, the forum in which the arbitration will take place is selected by the Arbitration Committee.  Subject to state law, such disputes may not be litigated in any court.
w.	Choice of law	Article 29	Subject to state law, Florida law will apply.

**NOTE TO ITEM 17:**

Any provision in the Franchise Agreement which provides for termination upon bankruptcy of the franchisee may not be enforceable under Federal Bankruptcy Law (11 U.S.C. §101, et seq.)

**ITEM 18: PUBLIC FIGURES**

PDRI does not use any public figures to promote its franchises.

**ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS**

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

PDRI provides historical financial performance about PDRI’s existing outlets in Tables 1-4 below, which show the actual gross sales of operating franchised Paul Davis Restoration Businesses during calendar year 2021. All actual gross sales figures have been provided to PDRI by its affiliate and its franchisees, who are required by the Franchise Agreement to engage a certified public accountant to compile financial statements. However, PDRI has not audited these financial statements to determine whether they were prepared in accordance with generally accepted accounting principles. The amounts represented in Tables 1-4 are amounts reported to PDRI by all operating Paul Davis Restoration Businesses. The term “Population” in the Tables below refers to the number of people comprising the applicable business’s territory, as designated by PDRI. In some instances, PDRI elected to exclude a certain number of people that live in the

territory due to the demographics of the area, so the actual population of the territory may be higher than the number stated in the Tables below.

PDRI provides in Table 5 actual sales prices of PDRI franchises sold during the last six years. All actual sales prices have been provided to PDRI by its franchisees. Franchisees who wish to sell their PDRI franchise are required by the Franchise Agreement to submit a copy of the sale agreement between the franchisee and the franchise's buyer. Once PDRI has approved the sale, neither the buyer nor the selling franchisee are required to submit any further information concerning the sales price or evidence that the full sales price was paid. Accordingly, while PDRI has no reason to believe that any of the information provided by its franchisees concerning the sale of their PDRI franchise is incorrect or false, PDRI cannot represent or warrant that the sales figures provided to it by its franchisees is all the information available to its franchisees or that it is completely accurate.

**Some outlets have sold these amounts. Your individual results may differ. There is no assurance you will sell as much.**

Upon reasonable request, PDRI will provide you with written substantiation of the data PDRI used to prepare the financial performance representation and Tables 1-5; however, with respect to sale price information, we will not disclose the identity of any specific franchisee or the location of the franchise sold.

**Table 1**  
**2021 GROSS SALES OF OPERATIONAL PDR BUSINESSES IN OPERATION**  
**AT LEAST TWO YEARS**

State	Office Name	Population	Opened Date	Gross Sales 2021 \$
AL	Paul Davis Restoration of Greater Birmingham, AL	525,442	9/6/2018	4,788,992
AL	Paul Davis Restoration of Huntsville, AL	657,716	11/29/2018	7,583,268
CA	Paul Davis Restoration of Burbank/Beverly Hills, CA	327,226	8/22/2012	562,263
CA	Paul Davis Restoration of Central Valley, CA	343,303	3/21/2013	2,498,423
CA	Paul Davis Restoration of the Inland Empire	530,929	4/15/2005	4,644,949
CA	Paul Davis Restoration of North County San Diego, CA	739,053	2/26/2018	1,862,172
CA	Paul Davis Restoration of Greater Palm Springs	495,375	9/2/1997	4,681,826
CA	Paul Davis Restoration of Santa Clarita, CA	321,389	1/6/2016	4,652,962
CA	Paul Davis Restoration of Southern California	766,668	2/1/1998	1,933,437

CA	Paul Davis Restoration of South Orange County	847,516	12/1/1997	2,036,554
CA	Paul Davis Restoration of Northern Ventura, CA	363,221	2/4/2005	879,601
CO	Paul Davis Restoration of Douglas County, CO	574,389	6/15/2018	1,360,435
CO	Paul Davis Restoration of El Paso County, CO	770,119	4/1/2016	784,108
CO	Paul Davis Restoration of Fort Collins, CO	582,841	11/6/2018	3,233,058
CO	Paul Davis Restoration of Front Range, CO	789,423	9/10/2018	1,742,635
CO	Paul Davis Restoration of Greater Denver, CO	705,202	2/26/2016	1,800,777
CO	Paul Davis Restoration of the Mountain Resorts, CO	252,076	7/16/2019	7,186,872
CT	Paul Davis Restoration of Northwest Connecticut	709,289	5/11/2007	3,110,188
CT	Paul Davis Restoration of Fairfield County	943,710	1/1/2002	3,134,380
CT	Paul Davis Restoration of Central Connecticut	386,581	8/1/1999	1,624,948
CT	Paul Davis Restoration of New Haven and Shoreline East, CT	1,419,264	12/8/2016	5,545,773
DC/MD	Paul Davis Restoration of Suburban MD & Washington DC	2,572,708	7/1/1988	13,990,245
DE	Paul Davis Restoration of Northern Delaware	543,856	2/26/2018	2,946,850
DE	Paul Davis Restoration of the Delmarva Peninsula	474,024	6/8/2012	6,069,245
DE, MD	Paul Davis Restoration of Howard and Anne Arundel Counties	902,950	12/1/1990	3,203,264
FL	Paul Davis Restoration of Broward County	1,953,675	4/2/2007	3,335,778
FL	Paul Davis Restoration of North Florida	1,280,406	9/1/1995	4,169,410
FL	Paul Davis Restoration of East Tampa	767,476	6/1/2000	6,306,113
FL	Paul Davis Restoration of North Pinellas	338,683	6/23/2011	918,324
FL	Paul Davis Restoration of the Space Coast	616,481	11/1/2011	6,718,396
FL	Paul Davis Restoration of North Central Florida	403,586	6/5/2014	1,954,955
FL	Paul Davis Restoration of Lee and Collier Counties	1,142,219	7/14/2006	4,101,742
FL	Paul Davis Restoration of Marion, Lake and Sumter Counties	856,586	6/5/2014	2,416,126

FL	Paul Davis Restoration of Orlando	1,790,182	2/1/1988	4,057,157
FL	Paul Davis Restoration of Polk County	768,773	3/6/2005	2,800,854
FL	Paul Davis Restoration of Pasco and Hernando	694,355	2/26/2018	2,157,972
FL	Paul Davis Restoration of St. Augustine	446,772	5/1/1992	2,519,017
FL	Paul Davis Restoration of Seminole County	457,650	10/3/2003	159,913
FL	Paul Davis Restoration of Sarasota and Charlotte Counties	633,806	7/17/2019	4,569,405
FL	Paul Davis Restoration of Manatee County	397,019	12/1/1998	1,600,333
FL	Paul Davis Restoration of Pinellas	644,308	10/1/1987	3,153,411
FL	Paul Davis Restoration of Tallahassee	417,932	8/25/2006	4,134,831
FL	Paul Davis Restoration of the Treasure Coast	670,143	8/1/1995	1,045,844
FL	Paul Davis Restoration of Tampa West	657,083	1/23/2012	9,785,549
FL	Paul Davis Restoration of Volusia County	528,719	2/3/2003	2,305,726
GA	Paul Davis Restoration of Central Georgia	614,531	10/1/2005	2,763,922
GA	Paul Davis Restoration of Coastal Georgia	518,681	4/1/1996	1,813,689
GA	Paul Davis Restoration of North Atlanta	2,725,652	1/1/2002	10,581,409
GA	Paul Davis Restoration of the Golden Isles, GA	215,505	8/19/2019	824,276
GA	Paul Davis Restoration of Lanier Isles	530,138	9/12/2013	4,459,937
GA	Paul Davis Restoration of Northwest Georgia	508,272	3/20/2019	2,287,584
GA	Paul Davis Restoration of South Atlanta	1,957,286	6/1/1997	10,198,141
GA, SC	Paul Davis Restoration of Augusta/Aiken	563,879	4/1/1999	1,485,926
GA, TN	Paul Davis Restoration of Greater Chattanooga	572,294	6/23/1989	3,239,093
IA, NE	Paul Davis Restoration of Omaha	911,386	6/1/1986	17,204,893
IA, NE	Paul Davis Restoration of Sioux City	165,269	1/21/2005	2,825,560
ID	Paul Davis Restoration of Idaho	630,872	4/1/1993	3,561,766
ID	Paul Davis Restoration of Southwestern Idaho	675,073	5/31/2017	2,715,941
IL	Paul Davis Restoration of Bloomington/Peoria, IL	485,012	9/23/2008	4,628,032

IL	Paul Davis Restoration of DuPage County	979,893	10/2/2009	2,912,012
IL	Paul Davis Restoration of North Chicago, IL	750,043	12/17/2019	2,509,847
IL	Paul Davis Restoration of Rockford	741,461	7/1/2001	1,430,438
MO	Paul Davis Restoration of Southeast St. Louis, MO	325,219	9/6/2019	3,679,830
IN	Paul Davis Restoration of South Indianapolis	748,829	5/24/2013	2,343,842
IN	Paul Davis Restoration of North Central Indiana	641,147	11/4/2016	2,845,063
IN	Paul Davis Restoration of North Indianapolis	1,437,411	4/24/2005	2,499,176
IN	Paul Davis Restoration of Northeast Indiana	904,173	4/1/1993	13,273,983
KY	Paul Davis Restoration & Remodeling of Louisville, KY	1,339,376	6/1/1980	8,681,552
KY	Paul Davis Restoration of the Tri-State Area	1,519,203	11/1/1984	2,677,368
KS	Paul Davis Restoration of Greater Lawrence & Topeka	354,326	9/28/2004	1,779,759
MO	Paul Davis Restoration & Remodeling of Kansas City	1,488,750	8/8/2006	2,087,499
KY	Paul Davis Restoration of Bowling Green	211,004	3/7/1986	3,847,556
KY	Paul Davis Restoration & Remodeling of Elizabethtown	300,785	9/4/2006	4,015,659
KY	Paul Davis Restoration & Remodeling of Lexington, KY	723,197	9/1/1987	5,675,156
KY	Paul Davis Restoration of Northwest Kentucky	190,118	1/13/2017	1,313,674
KY	Paul Davis Restoration of the River Cities	818,745	11/28/2018	2,957,872
LA	Paul Davis Restoration of Baton Rouge, LA	596,375	6/15/2018	6,610,669
LA	Paul Davis Restoration of Central Louisiana	203,271	11/1/1996	4,249,404
MA	Paul Davis Restoration of Boston Metro West	458,605	1/18/2017	708,689
MA	Paul Davis Restoration of Boston South	457,337	12/12/2014	7,005,422
MA	Paul Davis Restoration of Cape Cod & the Islands	255,758	12/17/2015	823,210
MA	Paul Davis Restoration of Worcester County, MA	720,973	12/20/2018	3,194,042
MD	Paul Davis Restoration of Baltimore	1,075,738	7/31/2009	9,367,623
MD	Paul Davis Restoration of Chesapeake Bay	327,942	6/24/2005	2,161,656

MD	Paul Davis Restoration of Southern Maryland	513,837	4/15/2008	571,545
WV	Paul Davis Restoration of the Maryland and West Virginia Panhandles	358,654	2/10/2016	1,924,563
NH	Paul Davis Restoration of Southern New Hampshire and Maine	536,132	12/1/2001	3,515,234
MI	Paul Davis Restoration of Central Michigan	377,145	12/9/2008	2,316,587
MI	Paul Davis Restoration of Metro Detroit, MI	597,725	6/25/2015	592,370
MI	Paul Davis Restoration of Mid Michigan	844,516	5/1/1992	4,560,819
MI	Paul Davis Restoration of Ann Arbor, MI	550,021	9/14/2017	1,581,909
MI	Paul Davis Restoration & Remodeling of Northwest Michigan	379,717	2/4/2004	2,022,287
MI	Paul Davis Restoration of Oakland County	476,928	1/1/2002	1,273,833
OH	Paul Davis Restoration of Western Lake Erie	1,228,848	7/1/1985	1,422,804
MN	Paul Davis Restoration of Alexandria/St. Cloud, MN	240,124	12/1/2016	547,763
MN	Paul Davis Restoration of Greater Minneapolis, MN	529,329	8/14/2017	103,057
MN	Paul Davis Restoration of Greater St. Paul, MN	897,483	3/23/2012	17,257,099
WI	Paul Davis Restoration of the Northland	266,860	10/18/2018	2,258,457
MO	Paul Davis Restoration of Southwest Missouri	812,345	4/13/2011	7,683,226
MO	Paul Davis Restoration of West County, MO	849,976	2/8/2017	3,906,928
MS	Paul Davis Restoration of Central Mississippi	354,169	6/1/2007	2,824,399
MS	Paul Davis Restoration of North Mississippi	370,282	9/1/2004	990,475
MS	Paul Davis Restoration of the Golden Triangle, MS	296,403	2/1/2019	3,023,786
NC	Paul Davis Restoration of Greater Asheville	539,734	2/1/2001	3,135,628
NC	Paul Davis Restoration of Carolina Coast	801,137	11/21/2019	5,061,459
NC	Paul Davis Restoration of East Charlotte*	767,808	12/30/2021	1,133,491
NC	Paul Davis Restoration of Charlotte	759,124	7/1/2007	2,816,161
NC	Paul Davis Restoration of the Sandhills	485,304	3/22/2010	1,224,351

NC	Paul Davis Restoration of Rock Hill	617,829	9/27/2017	10,520,340
NE	Paul Davis Restoration of Central Nebraska	194,944	10/22/2018	2,915,720
NE	Paul Davis Restoration of Lincoln, Nebraska	514,018	9/9/2005	9,440,957
NE	Paul Davis Restoration of Northern Nebraska	104,368	12/1/2005	3,960,626
NJ	Paul Davis Restoration of Morris and Passaic Counties, NJ	1,086,723	10/29/2012	3,570,537
NJ	Paul Davis Restoration of Ocean County, NJ*	614,623	12/28/2021	998,000
NJ	Paul Davis Restoration of Southern New Jersey	884,045	4/16/2004	351,485
NJ	Paul Davis Restoration of West Central, NJ	778,333	6/25/2013	2,995,598
NY	Paul Davis Restoration of Orange and Sussex Counties	540,609	12/23/2014	2,194,374
NM	Paul Davis Restoration of New Mexico	801,302	7/1/1991	7,286,368
NM	Paul Davis Restoration of Northern New Mexico	291,032	10/1/1996	3,419,227
NY	Paul Davis Systems of the Capital District, Inc.	705,569	11/1/1990	3,717,771
NY	Paul Davis Restoration of Staten Island and Brooklyn	937,040	5/1/1998	3,028,664
NY	Paul Davis Restoration of Central Long Island	1,723,841	8/1/1994	5,104,225
NY	Paul Davis Restoration of Westchester County	1,049,141	2/1/1996	1,801,221
NY	Paul Davis Restoration of Greater Rochester, NY	572,523	9/22/2015	7,413,330
NY	Paul Davis Restoration of North Country, NY	352,887	10/9/2015	1,738,003
OH	Paul Davis Restoration of Akron, OH	796,765	1/15/2013	1,628,119
OH	Paul Davis Restoration of Cleveland Metro West	1,136,477	4/9/2004	8,209,857
OH	Paul Davis Restoration of Cleveland Metro	924,849	7/1/2005	8,135,039
OH	Paul Davis Restoration of Dayton	1,167,319	12/12/1988	1,554,855
OH	Paul Davis Restoration of Greater Cincinnati, OH	649,681	10/17/2016	2,274,739
OH	Paul Davis Restoration of Central Ohio	1,659,553	9/1/2019	3,817,433
OK	Paul Davis Restoration of Northern Oklahoma City	572,887	9/28/2012	1,869,196
OK	Paul Davis Restoration of Tulsa	662,868	8/1/1993	8,480,214

OR	Paul Davis Restoration of Clackamas County, OR	411,843	4/20/2018	2,776,154
OR	Paul Davis Restoration of Washington County, OR	587,291	4/20/2018	2,920,701
PA	Paul Davis Restoration of Allegheny County	622,311	10/2/2007	2,559,352
PA	Paul Davis Restoration of Greater Philadelphia Suburbs	1,159,291	3/6/2015	3,865,520
PA	Paul Davis Restoration of Lancaster and Lebanon Counties	1,845,097	6/1/2000	4,817,847
PA	Paul Davis Restoration of Bucks County, PA	633,624	6/6/2013	5,463,762
PA	Paul Davis Restoration of Western Pennsylvania	482,674	12/2/2004	5,193,555
RI	Paul Davis Restoration of Rhode Island	1,071,846	10/23/2015	1,673,009
SC	Paul Davis Restoration & Remodeling of Beaufort and Jasper Counties	213,118	2/1/1999	3,987,745
SC	Paul Davis Restoration of Greater Charleston, SC	716,298	2/1/2019	6,277,622
SC	Paul Davis Restoration of Greater Columbia	759,147	11/1/1999	827,816
SC	Paul Davis Restoration of Greenville and Spartanburg	984,216	3/1/2019	3,387,907
TN	Paul Davis Restoration of Middle TN	1,120,121	7/1/2001	2,971,396
VA	Paul Davis Restoration of Greater Tri-Cities	1,204,235	5/1/1990	6,777,029
TX	Paul Davis Restoration of South Austin, TX	770,897	4/12/2019	8,721,713
TX	Paul Davis Restoration of Kingwood/Humble, TX	873,770	10/11/2016	25,553,902
TX	Paul Davis Restoration of North Austin, TX	794,563	4/12/2019	5,406,288
TX	Paul Davis Restoration of Northern Metroplex	697,605	12/12/2014	3,949,978
TX	Paul Davis Restoration of the Park Cities, TX	673,681	11/11/2016	1,065,292
TX	Paul Davis Restoration of Spring, TX	600,974	10/11/2016	285,410
TX	Paul Davis Restoration of Woodlands/Conroe, TX	811,536	10/11/2016	78,611
UT	Paul Davis Restoration of Salt Lake	861,169	12/9/2015	717,348
UT	Paul Davis Restoration of Southern Wasatch	1,049,094	9/4/2015	13,660,549
UT	Paul Davis Restoration of Wasatch Front	761,031	3/13/2013	20,331,526
VA	Paul Davis Restoration of Central Virginia	483,311	1/3/2007	5,569,419

VA	Paul Davis Restoration of Suburban Virginia	1,166,655	9/1/1997	15,991,675
VA	Paul Davis Restoration of Greater Richmond, VA	520,537	10/12/2018	2,126,902
VA	Paul Davis Restoration of Roanoke and Lynchburg	716,380	5/10/2017	184,588
VA	Paul Davis Restoration of Northwest Virginia	521,145	11/1/1999	3,694,976
VA	Paul Davis Restoration of Northern Virginia	1,602,607	1/2/2006	11,277,484
VA	Paul Davis Restoration of West Richmond, VA	508,773	1/16/2014	2,712,497
VT	Paul Davis Restoration of Northern Vermont	308,462	7/23/2007	1,537,922
WA	Paul Davis Restoration of East King County, WA	935,240	10/1/2000	3,445,878
WA	Paul Davis Restoration of the Olympic Peninsula	340,632	3/6/2007	2,675,366
WA	Paul Davis Restoration of West King County, WA	902,845	1/1/2006	1,022,832
WA	Paul Davis Restoration of Portland/Vancouver	1,312,823	1/8/2007	13,720,382
WI	Paul Davis Restoration of South Central Wisconsin	923,059	5/1/1996	11,101,818
WI	Paul Davis Restoration of Southeast Wisconsin	3,331,742	2/1/2002	50,089,318

\* Units were transferred in 2021.

<b>TOTAL REPORTED GROSS SALES</b>	\$763,904,469
<b>NUMBER OF FRANCHISES</b>	
<b>MEDIAN REPORTED GROSS SALES PER FRANCHISE</b>	\$2,770,038
<b>AVERAGE REPORTED GROSS SALES PER FRANCHISE</b>	\$3,962,651
<b>PERCENT OF FRANCHISEES (OPERATING FOR AT LEAST 2 YEARS) THAT WERE OPERATIONAL DURING 2021 THAT ATTAINED OR SURPASSED THE AVERAGE RESULTS</b>	33% (70out of212)

**Table 2**  
**2021 GROSS SALES OF OPERATIONAL PDR BUSINESSES IN OPERATION**  
**LESS THAN TWO YEARS**

State	Office Name	Population	Opened Date	Gross Sales 2021 \$
AZ	Paul Davis Restoration of Central Phoenix, AZ	799,301	7/9/2020	5,916,713
AZ	Paul Davis Restoration of East Phoenix, AZ	797,715	7/9/2020	24,602
AZ	Paul Davis Restoration of West Phoenix, AZ	799,835	7/9/2020	52,335
CA	Paul Davis Restoration of South Bay	761,601	12/30/2020	1,935,946
CA	Paul Davis Restoration of South San Diego County, CA	787,828	7/20/2021	697,964
CO	Paul Davis Restoration of Aurora, CO <sup>#</sup>	467,367	2/26/2021	0
CO	Paul Davis Restoration of Northeast Denver, CO	601,989	2/26/2021	1,351,994
FL	Paul Davis Restoration of the Central Florida Panhandle	391,786	3/1/2021	2,460,942
FL	Paul Davis Restoration of Palm Beach County	1,471,269	8/20/2021	368,350
GA	Paul Davis Restoration of Northeast Georgia	589,514	8/26/2021	902,545
IA	Paul Davis Restoration of the Iowa Corridor	412,313	8/24/2020	1,668,317
IL	Paul Davis Restoration of Lake County, IL	705,033	10/1/2021	253,000
IL	Paul Davis Restoration of Will and Southwest Cook County, IL	790,830	1/13/2021	1,524,934
MI	Paul Davis Restoration of West Michigan	794,193	7/17/2020	1,778,038
MI	Paul Davis Restoration of East Michigan	799,737	3/9/2021	1,036,521
MO	Paul Davis Restoration of the Capital Region, MO	409,301	11/8/2021	178,000
MO	Paul Davis Restoration of Metro West St. Louis	523,940	3/26/2021	514,838
NC	Paul Davis Restoration of Durham, NC <sup>+</sup>	790,822	3/17/2021	0
NC	Paul Davis Restoration of Raleigh, NC	786,993	3/17/2021	549,537
NJ	Paul Davis Restoration of Bergen County, NJ	799,741	6/1/2021	1,871,744
NJ	Paul Davis Restoration of Northeast NJ <sup>^</sup>	800,056	6/1/2021	0

NV	Paul Davis Restoration of Greater Reno and Tahoe, NV*	571,481	10/5/2021	1,351,306
NY	Paul Davis Restoration of Metro New York##	1,565,647	8/19/2020	0
NY	Paul Davis Restoration of Queens, NY	1,134,019	8/19/2020	16,450,604
PA	Paul Davis Restoration of Lehigh Valley, PA	726,362	6/14/2021	116,848
PA	Paul Davis Restoration of Montgomery-Berks, PA	779,312	9/4/2020	5,478,394
PA	Paul Davis Restoration of Susquehanna Valley, PA	574,496	6/8/2021	467,397
TN	Paul Davis Restoration of Greater Knoxville, TN	513,939	½/2020	1,529,731
TN	Paul Davis Restoration of Middle Tennessee	1,149,002	7/10/2020	5,119,689
TX	Paul Davis Restoration of Central Houston**	795,762	10/21/2021	0
TX	Paul Davis North Dallas – Fort Worth	783,064	11/3/2021	134,365
TX	Paul Davis Restoration of North Dallas, TX	760,156	6/15/2020	3,044,749
TX	Paul Davis Restoration of Fort Worth, TX^^	794,243	10/11/2021	0
TX	Paul Davis Restoration of Galveston, TX**	659,508	10/21/2021	0
TX	Paul Davis Restoration of North Central Houston**	622,924	10/21/2021	0
TX	Paul Davis Restoration of Southeast Houston, TX	801,170	1/23/2020	260,344
TX	Paul Davis Restoration of West Fort Worth, TX	518,815	10/16/2020	3,308,490
TX	Paul Davis Restoration of West Central Houston**	575,328	10/21/2021	0
VA	Paul Davis Restoration of Williamsburg, VA**	539,460	12/1/2021	398,000
WA	Paul Davis Restoration of Tacoma, WA	798,082	9/3/2021	156,635

The chart above excludes one unit that transferred in 2021 as no sales activity occurred.

\* These businesses previously operated as Paul Davis Emergency Services franchises, and each converted to a Paul Davis Restoration business on the “Opened Date” set forth in this Table

\*\* This business was an independent conversion that operated under different marks prior to the “Opened Date” in this Table. Each of the businesses below are multi-territory owners and are counted as a single Franchisee in the calculations below:

# This business reported under Paul Davis Restoration of Northeast Denver.

+ This business reported under Paul Davis Restoration of Raleigh

^ This business reported under Paul Davis Restoration of Bergen County

## This business reported under Paul Davis Restoration of Queens

^^ This business reported under Paul Davis Restoration of Fort Worth

++ These businesses reported under Paul Davis Restoration of Kingwood/Humble in Table 1 above and are excluded from the calculations below.

<b>TOTAL REPORTED GROSS SALES</b>	\$60,902,872
<b>NUMBER OF FRANCHISES</b>	
<b>MEDIAN REPORTED GROSS SALES PER FRANCHISE</b>	\$1,036,521
<b>AVERAGE REPORTED GROSS SALES PER FRANCHISE</b>	\$1,964,609
<b>PERCENT OF FRANCHISEES (OPERATING FOR LESS THAN 2 YEARS) THAT WERE OPERATIONAL DURING 2020 THAT ATTAINED OR SURPASSED THE AVERAGE RESULTS</b>	23% (7 out of 31)

**Table 3**  
**GROSS SALES OF FRANCHISES SOLD OR TRANSFERRED DURING 2021**

State	Office Name	Population	Gross Sales 2021 \$
FL	Paul Davis Restoration of Orlando	1,790,182	4,057,157
FL	Paul Davis Restoration of Palm Beach	1,203,867	1,699,388
GA	Paul Davis Restoration of Atlanta	545,132	203,179
IL	Paul Davis Restoration of Lake Forest	707,461	710,602
NC	Paul Davis Restoration of Indian Trail	767,808	1,133,490
NJ	Paul Davis Restoration of Monmouth	616,129	998,000
NJ	Paul Davis Restoration of Freehold	778,333	2,995,598
TX	Paul Davis Restoration of Carrollton	484,495	2,091,944

**Table 4**  
**GROSS SALES OF FRANCHISES TERMINATED OR CEASED OPERATING DURING 2021**

State	Office Name	Population	Gross Sales 2021 \$
MA	Paul Davis Restoration of Springfield	704,758	521,142
MD	Paul Davis Restoration of Newberg	371,099	645,343
ME	Paul Davis Restoration of Old Town	293,802	1,974,191
MI	Paul Davis Restoration of Owosso	539,981	742,181
TN	Paul Davis Restoration of Jackson	315,556	579,301
TX	Paul Davis Restoration of Lakeway	312,413	4,718,979

**Table 5**  
**RESALE VALUATIONS DURING 2021**

Closing Date	Selling Price	Sales prior 12 months \$	Price to Sales Ratio	Population	Price per capita	Buyer and seller related?
6/24/2021	1,500,000	4,822,584	0.31	1,790,182	0.84	No

7/23/2021	950,000	2,730,221.00	0.35	1,203,867	0.79	No
7/1/2021	537,743	1,556,243.00	0.35	545,132	0.99	No
10/1/2021	740,000	1,576,759.00	0.47	707,461	1.05	No
12/31/2021	200,000	1,682,153.00	0.12	767,808	0.26	No
12/28/2021	180,000	866,570.00	0.21	616,129	0.29	No
12/31/2021	0	2,995,598.00	0	778,333	0	Yes (Heir)
11/3/2021	950,000	2,091,944.18	0.45	484,495	1.96	No

Other than the preceding financial performance representation, Paul Davis Restoration, Inc. does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Laura Ferrante at Paul Davis Restoration, Inc., 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256; Tel: (904) 737-2779, the Federal Trade Commission, and the appropriate state regulatory agencies.

## ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1**  
**Systemwide Outlet Summary**  
**For fiscal years ending December 31, 2019, 2020, 2021**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
<b>Franchised</b>	2019	193	190	-3
	2020	190	196	+6
	2021	196	212	+16
<b>Company-Owned</b>	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
<b>Total Outlets</b>	2019	193	190	-3
	2020	190	196	+6
	2021	196	212	+16

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than Franchisor)**  
**For fiscal years ending December 31, 2019, 2020, 2021**

State	Year	Number of Transfers
Arizona	2019	0
	2020	1
	2021	0
Florida	2019	0
	2020	0
	2021	3
Georgia	2019	0
	2020	0
	2021	1
Illinois	2019	1
	2020	0
	2021	1
New Jersey	2019	0
	2020	0
	2021	2
New York	2019	2
	2020	0
	2021	0
North Carolina	2019	1
	2020	0
	2021	1
Ohio	2019	1
	2020	0
	2021	0
Tennessee	2019	0
	2020	1
	2021	0
Texas	2019	0
	2020	0
	2021	1
Wisconsin	2019	0
	2020	0
	2021	0
<b>Totals</b>	<b>2019</b>	<b>5</b>
	<b>2020</b>	<b>2</b>
	<b>2021</b>	<b>9</b>

**Table No. 3**  
**Status of Franchised Outlets**  
**For fiscal years ending December 31, 2019, 2020, 2021**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non- Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Alabama	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Alaska	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Arizona	2019	1	0	0	0	0	0	1
	2020	1	2	0	0	0	0	3
	2021	3	0	0	0	0	0	3
California	2019	12	0	3	0	0	0	9
	2020	9	1*	0	0	0	0	10
	2021	10	1	0	0	0	0	11
Colorado	2019	6	1	0	0	0	0	7
	2020	7	0	1<	0	0	0	6
	2021	6	2	0	0	0	0	8
Connecticut	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Delaware	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Florida	2019	20	1	0	0	0	0	21
	2020	21	0	0	0	0	0	21
	2021	21	1	0	0	0	0	22
Georgia	2019	8	1*	0	0	0	0	9
	2020	8	1	0	0	0	0	9
	2021	9	0	0	0	0	0	9
Idaho	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Illinois	2019	5	0	0	0	0	0	5
	2020	5	0	0	0	0	0	5
	2021	5	1	0	0	0	0	6
Indiana	2019	5	0	1	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	0	4
Iowa	2019	1	0	0	0	0	0	1
	2020	1	1	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Kansas	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Kentucky	2019	8	0	1	0	0	0	7
	2020	7	0	0	0	0	0	7
	2021	7	0	0	0	0	0	7
Louisiana	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Maine	2019	2	0	1	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	1	0	0	0	0
Maryland	2019	7	0	0	0	0	0	7
	2020	7	0	0	0	0	0	7
	2021	7	0	1	0	0	0	6
Massachusetts	2019	5	0	0	0	0	0	5
	2020	5	0	0	0	0	0	5
	2021	5	0	1	0	0	0	4
Michigan	2019	8	0	1	0	0	0	7
	2020	7	1	0	0	0	0	8
	2021	8	1	1	0	0	0	8
Minnesota	2019	5	0	0	0	0	0	5
	2020	5	0	1	0	0	0	4
	2021	4	0	0	0	0	0	4
Mississippi	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Missouri	2019	2	1*	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	2	0	0	0	0	5
Nebraska	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	0	4
Nevada	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	1*	0	0	0	0	1
New Hampshire	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
New Jersey	2019	5	0	0	0	0	0	5
	2020	5	0	1	0	0	0	4
	2021	4	2	0	0	0	0	6
New Mexico	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
New York	2019	10	0	0	0	0	0	10
	2020	10	0	0	0	0	0	10
	2021	10	0	0	0	0	0	10
	2019	5	0	0	0	0	0	5

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
North Carolina	2020	5	0	0	0	0	0	5
	2021	5	2	0	0	0	0	7
North Dakota	2019	4	0	1	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Ohio	2019	7	1	0	0	0	0	8
	2020	7	0	1<	0	0	0	7
	2021	7	0	0	0	0	0	7
Oklahoma	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Oregon	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Pennsylvania	2019	5	0	0	0	0	0	5
	2020	5	1	0	0	0	0	6
	2021	6	2	0	0	0	0	8
Rhode Island	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
South Carolina	2019	5	0	0	0	0	0	5
	2020	5	0	0	0	0	0	5
	2021	5	0	0	0	0	0	5
Tennessee	2019	5	0	0	0	0	0	5
	2020	5	1*	0	0	0	0	6
	2021	6	0	1	0	0	0	5
Texas	2019	6	3*	0	0	0	0	9
	2020	9	3*	0	0	0	0	12
	2021	12	5	1	0	0	0	16
Utah	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Vermont	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Virginia	2019	11	0	3	0	0	0	8
	2020	8	0	0	0	0	0	8
	2021	8	1	0	0	0	0	9
Washington	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	1	0	0	0	0	5
West Virginia	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Wisconsin^	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
	2021	3	0	0	0	0	0	3
Totals	2019	194	8	11	0	0	0	191
	2020	191	9	4	0	0	0	196
	2021	196	22	6	0	0	0	212

**NOTES:**

1. PDRI did not fail to renew any franchised outlets during the fiscal years that ended December 31, 2019, 2020, 2021.

2. All franchises are listed by the state in which their office is located. However, the franchise territory of some franchises extends into more than one state.

\*Reflects new PDRI franchises that were conversions from Paul Davis Emergency Services franchises.

<Reflects a termination due to a merger of multiple territories open and operating.

^Includes Paul Davis National, which performs in a different manner than the franchise offered in this disclosure document and suspended operations on March 31, 2020.

**Table No. 4**  
**Status of Company-Owned Outlets**  
**For fiscal years ending December 31, 2019, 2020, 2021**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

**Table No. 5**  
**Projected Openings as of December 31, 2021**

State	Franchise Agreements Signed But Outlets Not Opened	Projected New Franchised Outlet in the Next Fiscal Year	Projected Company Owned Outlet in the Next
Alabama	0	0	0
Alaska	0	0	0

State	Franchise Agreements Signed But Outlets Not Opened	Projected New Franchised Outlet in the Next Fiscal Year	Projected Company Owned Outlet in the Next
Alabama	0	0	0
Arizona	0	1	0
Arkansas	0	0	0
California	1	5	0
Colorado	1	0	0
Delaware	0	0	0
Florida	1	0	0
Illinois	0	1	0
Indiana	0	0	0
Iowa	0	0	0
Louisiana	0	1	0
Massachusetts	1	1	0
Michigan	0	1	0
Minnesota	0	1	0
New Jersey	1	0	0
Nevada	0	3	0
North Carolina	1	0	0
Oregon	0	0	0
Pennsylvania	0	1	0
South Carolina	0	1	0
Tennessee	0	1	0
Texas	0	1	0
Washington	0	0	0
West Virginia	0	0	0
<b>TOTALS</b>	6	18	0

Exhibit A identifies the names of all franchisees and the addresses and telephone numbers of all of their outlets. All franchise outlets reported in Exhibit A are substantially similar to the franchises offered in this disclosure document, other than the size of the territory.

The name and last known home address and telephone number of every franchisee who has had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year is attached to this disclosure document as Exhibit A. There are no franchisees who have not communicated with PDRI in the ten weeks prior to the issuance date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

PDRI has 218 franchises, of which 212 were in operation on December 31, 2021. Six franchises were sold but in training and not in operation as a PDR as of December 31, 2021. Information about these franchises are as follows:

1. Central San Diego. Sidney Scott and Mark Buckner. 12124 Rockstream Road, Lakeside, CA 92040. (619) 922-0072.
2. Western, CO. Dennis Shamshurn. 41149 Highway 6, Unit 13 Avon, CO 81620. (970) 945-9474.
3. Pensacola, FL. Gregory Clifton, Cody Clifton and Kyler Clifton. 4985 Coquina Crossing Drive, Elkton, FL 32033. (904) 495-8159.
4. Boston North. John Gugliotta, Paul McKenney, Brian Ruster, Joyce Perry. 215 Plain Street Ste 6, North Attleboro, MA 02760. (508) 215-4800.
5. Coastal Plains, NC. Gary Bevan Whaley. 5335 Skeeter Pond Road, Grifton, NC 28530. (252) 341-9878.
6. Monmouth County, NJ. Anthony Martino. 114 Throckmorton Lane, Old Bridge NJ 08857. (732) 585-9477.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the Paul Davis Restoration franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you. Some franchisees have signed confidentiality clauses during the past three years.

The following independent franchisee organization has asked to be included in this disclosure document: Paul Davis franchise Owner's Association (FOA) is in care of Caleb Brunz, NEC President, 2094 Gilbert Ave. St. Paul, MN 55104. (651) 243-0737.

## **ITEM 21: FINANCIAL STATEMENTS**

Exhibit B-1 of this disclosure document contains the following financial statements:

Audited consolidated financial statements of FS Brands, Inc., as parent for PDRI, for the fiscal years ended December 31, 2019, 2020 and 2021.

Our parent, FS Brands, Inc. absolutely and unconditionally guarantees PDRI's obligations under the Franchise Agreement. A copy of this guarantee is attached as Exhibit B-2.

## **ITEM 22: CONTRACTS**

Copies of PDRI's Franchise Agreement, Commercial Program Agreement and Promissory Note are attached as Exhibits C, D and G. Copies of the Tri-Party Agreement and Voluntary Termination Agreement and Release used in connection with the resale of existing franchises, along with additional information concerning resale, are attached as Exhibit J.

## **ITEM 23: RECEIPTS**

The last two pages of this disclosure document contain the receipt/acknowledgement that the prospective franchisee received a copy of this disclosure document and the exhibits attached to it.

**EXHIBIT A**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**FRANCHISEE LIST**

**THE FOLLOWING PAUL DAVIS RESTORATION FRANCHISES WERE IN OPERATION ON DECEMBER 31, 2021 (207 O&O)**

<b>ST*</b>	<b>CODE</b>	<b>OWNERS</b>	<b>STREET</b>	<b>CITY</b>	<b>ZIP</b>	<b>TELEPHONE</b>
AL	BHAL	STEPHEN DICKEY JEFF GILMER	84 CEDAR LANE STE 102	TRUSSVILLE	35173	(205) 687-0556
AL	HVAL	DONNY TSUN WONG	1864 SPRAKMAN DR NW	HUNTSVILLE	35816	(256) 701 6860
AZ	CTAZ	BRADY RADMALL, BRANDON RADMALL	4607 S 35 <sup>TH</sup> STREET, SUITE 3	PHOENIX	85040	(602) 278-8837
AZ	ETAZ	BRADY RADMALL, BRANDON RADMALL	4607 S 35 <sup>TH</sup> STREET, SUITE 3	PHOENIX	85040	(602) 278-8837
AZ	WTAZ	BRADY RADMALL, BRANDON RADMALL	4607 S 35 <sup>TH</sup> STREET, SUITE 3	PHOENIX	85040	(602) 278-8837
CA	BHCA	SARKIS PRUSALIAN	111 E CEDAR AVENUE SUITE 104	BURBANK	91502	(818) 230-8300
CA	CVCA	JOSEPH MALFITANO	150 MIDDLEFIELD COURT, SUITE F	BRENTWOOD	94513	925-260-4849
CA	IECA	EDWARD SHAPIRO	1787 POMONA ROAD, UNIT B	CORONA	92880	(951) 270-5304
CA	NCSD	REUBEN SPILKIN	1125 LINDA VISTA DR STE 103	SAN MARCOS	92078	(858)987-4636
CA	PSCA	DEE JOHNSON	77833 PALAPAS ROAD	PALM DESERT	92211	(760) 360-1855
CA	SACA	JOEL MOSS	26810 OAK AVE. UNIT F	SANTA CLARITA	91351	(661) 310-0884
CA	SBAY	KYLE WATERS	2909 OREGON CT. STE. A-4	TORRENCE	90503	(310) 683-3960
CA	SCAL	MARK SHROFF	14670 FIRESTONE BLVD UNIT 406	LA MIRADA	90638	(714) 228-0895
CA	SOCA	PAT ASALONE	26233 ENTERPRISE COURT	LAKE FOREST	92630	(949) 455-1710
CA	SOSD	MANUAL MARTINEZ	7920 AIRWAY ROAD, SUITE A7	SAN DIEGO	92154	(619) 400-6600
CA	VCCA	RICK GLIWA	4125 MARKET STREET, UNIT 11	VENTURA	93003	(805) 339-2700
CO	ARCO	JAMES LOMBARD	7003 EAST 47TH AVENUE DRIVE	DENVER	80216	(720) 826-1989
CO	DCCO	BRENNAN BANDY RICHARD TABAKA	1500 W HAMPDEN AVE UNITS 3C – 3D	SHERIDAN	80110	(303) 322-3328
CO	EPCO	BRENT COWELL	7939 RED GRANITE LOOP	COLORADO SPRINGS	80939	(719) 260-0031
CO	FCCO	DAVID MCCARTY	2636 MIDPOINT DR UNIT A	FT. COLLINS	80525	(970) 888-2294
CO	FOCO	RYAN TRIGG	14818 W 6 <sup>TH</sup> AVE. UNIT 9A	GOLDEN	80401	(303) 242-8030
CO	GDCO	BRENNAN BANDY RICHARD TABAKA	1500 W HAMPDEN AVE UNITS 3C – 3D	SHERIDAN	80110	(303) 322-3328
CO	MTCO	DENNIS SHAMSHURYN	41149 HIGHWAY 6 UNIT 13	AVON	81620	(970) 945-9474
CO	NDCO	JAMES LOMBARD	7003 EAST 47TH AVENUE DRIVE	DENVER	80216	(720) 826-1989
CT	CTNT	AGATA TROJANOSKI	21C ANDOVER DRIVE	WEST HARTFORD	06110	(860) 761-3185
CT	HTFD	RICK SUYDAM	22 KREIGER LANE	GLASTONBURY	06033	(860) 633-7733

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
CT	NHAC	JASON WALKER	140 NORTH BRANFORD ROAD	BRANFORD	06405	(203) 315-1500
DE	NEDE	MIKE ARUANNO, SR.	5169 SUMMIT BRIDGE RD UNIT 4	MIDDLETOWN	19709	(302) 449-6941
FL	BCFL	GORDON BERKEN	4571 NW 8 <sup>TH</sup> AVE	OAKLAND PARK	33309	(954) 979-9078
FL	DUVL	PDO HOLDINGS, INC.	2111 N LIBERTY STREET	JACKSONVILLE	32206	(904) 739-6047
FL	ETMP	DARRIN IMPSON	8812 VENTURE COVE	TAMPA	33637	(813) 984-2700
FL	FLCW	CHRIS WIGGINS KATHY WIGGINS	10950 47TH STREET NORTH	CLEARWATER	33762	(727) 573-4880
FL	FLSC	PHIL WELCH MARJA WELCH	3972 W. EAU GALLIE BLVD, SUITE C	MELBOURNE	32934	(321) 690-0000
FL	GVFL	ROBERT BAGLEY	3499 NW 97 <sup>TH</sup> BLVD, UNIT #10	GAINESVILLE	32606	(352) 332-5306
FL	LCFL	RICH CHRISTIENS	5780 YOUNGQUIST ROAD, UNIT #5	FORT MYERS	33912	(239) 337-2500
FL	LMSC	JIM INGOLD	12331 S HIGHWAY 441	BELLEVUE	34420	(352) 307-2222
FL	ORLA	PHIL WELSH	5104 FORSYTH COMMERCE ROAD	ORLANDO	32807	(407) 629-6700
FL	PACF	GREGORY CLIFTON	17747 ASHLEY DRIVE	PANAMA CITY BEACH	32413	(850) 909-3011
FL	PBFL	GEORGE COUTO	2781 VISTA PARKWAY, STE 12	WEST PALM BEACH	33411	(561) 478-7272
FL	PCFL	KEVIN LETHERS	308 COMMERCE COURT	WINTER HAVEN	33880	(863) 299-9688
FL	PHFL	DARREN IMPSON LEON BERRY	18626 PROSPEROUS DRIVE	ODESSA	33556	(727) 947-9020
FL	SAUG	JACK BUENING	2139 DOBBS ROAD, UNIT 1	SAINT AUGUSTINE	32086	(904) 824-1468
FL	SCFL	RANDELL HIGHT	400 COMMERCE WAY, SUITE #116	LONGWOOD	32750	(407) 767-0840
FL	SSCC	DEREK MAXWELL	6292 TOWER LANE, UNIT 4	SARASOTA	34240	(941) 359-0751
FL	SSMT	GREG MAXWELL	1715 INDEPENDENCE BLVD, SUITE B-6	SARASOTA	34234	(941) 359-3473
FL	STPE	CHRIS WIGGINS KATHY WIGGINS	10950 47TH ST N	CLEARWATER	33762	(727) 573-4880
FL	TLFL	JAY WHITE	5278 TOWER ROAD	TALLAHASSEE	32303	(850) 576-7378
FL	TRZR	MICHAEL EDWARDS SHARON CAROTHERS	1950 SW BILTMORE STREET	PORT SAINT LUCIE	34984	(772) 340-2080
FL	TWFL	DARREN IMPSON	8812 VENTURE COVE	TAMPA	33637	(813) 984-2700
FL	VCFL	GLENN HARRISON	2395 BELLEVUE AVENUE	DAYTONA BEACH	32114	(386) 760-8959
GA	AGAK	MARK HUTCHISON	3340 COMMERCE DRIVE	AUGUSTA	30909	(706) 733-2331
GA	ATGA	MICHAEL MCHENRY	255 COLLINS INDUSTRIAL BLVD.	ATHENS	30601	(706) 548-5800
GA	CLGA	MICHAEL MCHENRY	4282 INTERSTATE DRIVE	MACON	31210	(478) 475-5807
GA	CSTL	KATHY REDDING	3518 ROSS ROAD	SAVANNAH	31405	(912) 236-5337

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
GA	GCGA	WILSON TOMALA	1450 OAKBROOK DRIVE, SUITE 400	NORCROSS	30093	(770) 985-1727
GA	GIGA	MIKE CHERRY MD BUCK	163 BLUFFTON RD	BLUFFTON	29910	(843) 757-3236
GA	LIGA	MICHAEL MCHENRY	4282 INTERSTATE DRIVE	MACON	31210	(478) 475-5807
GA	NWGA	GARRETT BELL	2753 CEDARTOWN HWY SE	ROME	30161	(706) 236-9002
GA	SATL	MICHAEL MCHENRY	201 ANDREW DRIVE SUITE 100	STOCKBRIDGE	30281	(770) 389-8808
IA	IACO	MATTHEW BANNING SCOTT CORNISH	9915 ATLANTIC DRIVE SW	CEDAR RAPIDS	52404	(319) 848-4259
IA	SCIA	CHRIS MANGAN	1610 PIERCE STREET	SIOUX CITY	51105	(712) 234-0095
ID	IDAH	JACK AND GARRETT MEIKLE	1022 LINCOLN ROAD	IDAHO FALLS	83401	(208) 522-7374
ID	SRID	JACK AND GARRETT MEIKLE	1022 LINCOLN ROAD	IDAHO FALLS	83401	(208) 522-7374
IL	CTIL	ROGER FREDSTROM	608 SOUTH WHITE OAK ROAD, SUITE 3	NORMAL	61761	(309) 828-1199
IL	DCIL	RICHARD KRAMER	550 WEST FIFTH AVENUE	NAPERVILLE	60563	(630) 778-7285
IL	LAIL	BRADY CHUCKEL JEFF HERTEL TIM GUILLETTE	28101 BALLARD DRIVE	LAKE FOREST	60045	(847) 362-6777
IL	NOCI	GARY MAUS	4222 N. RAVENSWOOD AVE	CHICAGO	60613	(630) 330-7702
IL	RKIL	JAMES DUNCAN VERN STEWART	6582 REVLON DRIVE	BELVIDERE	61008	(815) 547-9600
IL	WCCI	STEPHANIE O'CONNOR WILLIAM O'CONNER	18770 88 <sup>TH</sup> AVENUE, UNIT B	MOKENA	60448	(855) 737-9455
IN	ININ	WESLEY BLAGG	5555 ELMWOOD AVE. SUITE F	INDIANAPOLIS	46203	(317) 863-0490
IN	INNC	ALEX, JOHN, SANDRA MCINTYRE	427 BURKET LANE	BREMEN	46506	(574) 546-4440
IN	INNI	DAN LEFFERS	9715 KINCAID DR, SUITE 1290	FISHERS	46037	(317) 863-0490
IN	NEIN	MICHELLE KOELPER	3010-1 BUTLER RIDGE PARKWAY	FORT WAYNE	46808	(260) 436-7510
KS	MSKC	JEFF GOLDMAN	14813 W 95 <sup>TH</sup> STREET	LENEXA	66215	(913) 345-2700
KS	TOPK	JEFF GOLDMAN	1420 NORTH 3RD STREET	LAWRENCE	66044	(785) 842-0351
KY	BOWL	BUTCH RUSH JOHN SIMMS	931 SEARCY WAY	BOWLING GREEN	42103	(270) 782-0123
KY	ECIN	STEPHEN RIGSBY	4395 BORON DRIVE	LATONIA	41015	(859) 655-8300
KY	ETKY	BARRY GODDIN DEBBIE GOODIN	2689 BARDSTOWN ROAD	ELIZABETHTOWN	42701	(270) 765-5511

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
KY	LEXI	PDO HOLDINGS	230 INDUSTRY PKWY	NICHOLASVILLE	40356	(859) 885-7653
KY	LOUI	BILL HORN	945 S FLOYD ST	LOUISVILLE	40203	(502) 583-1668
KY	NWKY	CHRIS WADDELL	1030 AMIET ROAD	HENDERSON	42420	(270) 957-8911
KY	RCKY	SARAH GABBARD	610 1 <sup>ST</sup> STREET	WORTHINGTON	41183	(606) 744-2888
LA	BTLA	GRACIELA JOHNSON GARY JOHNSON	11800 INDUSTRIPLEX BLVD. STE. 3	BATON ROUGE	70817	(225) 408-0390
LA	CNLA	DIRK FOSTER	PO BOX 1348	ALEXANDRIA	71309	(318) 487-1306
MA	BMMA	JOHN GUGLIOTTA	215 PLAIN STREET STE 6	NORTH ATTLEBORO	02760	(508) 215-4800
MA	BSMA	JOHN GUGLIOTTA	215 PLAIN STREET STE 6	NORTH ATTLEBORO	02760	(508) 215-4800
MA	CCMA	STEVE CAHILL	527 MAIN ST.	HARWICH	02645	(508) 430-8100
MA	WCMA	TODD NEWVILLE	547 HARTFORD TURNPIKE	SHREWSBURY	01545	(508_ 841-7285
MD	BLMD	ALLEN OWENS	10715 RED RUN BLVD., SUITE 114	OWINGS MILLS	21117	(410) 737-8505
MD	CBMD	CHRIS BRUNEAU	1300 ENTERPRISE COURT, SUITE 102	BEL AIR	21014	(410) 638-8104
MD	DPDE	FRANK WILLING	100 MARVEL ROAD	SALISBURY	21801	(410) 219-9160
MD	HOWA	JOHN ROSS	4785 DORSEY HALL DRIVE SUITE 103	ELLCOTT CITY	21042	(410) 730-7260
MD	MDSO	STEVEN HERMAN	7980 PENN RANDALL PLACE UNIT A	UPPER MARLBORO	20772	(301) 420-7285
MD	SLVR	PDO HOLDINGS, INC.	7410 LINDBERGH DRIVE	GAITHERSBURG	20879	(301) 948-8008
MI	CNMI	JASON ARSENAULT	2677 N. EASTMAN ROAD	MIDLAND	48642	(989) 486-3456
MI	DEMI	MARK BEYDOUN	25150 W. WARREN	DEARBORN HEIGHTS	48127	(313) 846-5700
MI	GPMI	JASON KITCHEN MICHAEL BYRNES TRAVIS BYRNES	6030 CLYDE PARK AVE SW STE F	BYRON CENTER	49315	(616) 647-5514
MI	LANS	JEFF NYE DEENA PARKER	881 HULL ROAD SUITE 100	MASON	48854	(517) 676-8000
MI	MCMi	BRIAN THOMAS	50581 SABRINA DRIVE	UTICA	48315	(586) 983-8008
MI	MIAA	JEFF NYE DEENA PARKER	881 HULL ROAD SUITE 100	MASON	48854	(517) 719-5056
MI	NWMI	SCOTT THOMAS	1310 INDUSTRY DRIVE, SUTIE B	TRAVERSE CITY	49696	(231) 933-9077
MI	OCMI	NANCY RASHID	22601 STEVENSON	CLINTON TOWNSHIP	48035	(586) 792-6933
MN	ALMN	MARSHALL ADAMS	3905 HIGHWAY 29 SOUTH	ALEXANDRIA	56308	(320) 808-6030
MN	GMMN	CALEB BRUNZ	2094 GILBERT AVE.	ST. PAUL	55104	(651) 243-0737
MN	GSMN	CALEB BRUNZ	2094 GILBERT AVE	ST. PAUL	55104	(651) 243-0737
MN	NLMN	CALEB BRUNZ	2094 GILBERT AVE.	ST. PAUL	55104	(651) 243-0737

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
		NICHOLAS SEEFERT				
MO	CRMO	BRIAN STAMM	17641 HALIFAX ROAD	HOLTS SUMMIT	65043	(573) 896-4086
MO	MSMO	W. GRANT WILLIAMS	13609 LAKEFRONT DRIVE	EARTH CITY	63045	(314) 390-5278
MO	SESL	CHRISTOPHER STAMM	3933 RICE ROAD	HILLSBORO	63050	(636-479-7637
MO	STMO	ROGER FREDSTROM	2150 NORTH FOX HOLLOW DRIVE	NIXA	65714	(417) 725-7575
MO	WCMO	DENNIS SHY	1452 BALD EAGLE ROAD	GLENCO	63038	(636) 324-4011
MS	CEMS	STACEY WARREN JACKIE WARREN	509 DEXTER DRIVE	FLOWOOD	39232	(601) 605-1717
MS	NOMS	BRENT THOMPSON ABBY THOMPSON	907B LYNN LANE	STARKVILLE	39759	(662) 769-7285
NC	AANC	SHARON GREEN	34-A REDMOND DRIVE	FLETCHER	28732	(828) 687-7766
NC	CCNC	MATT VANCHINA	POBOX 10429	WILMINGTON	28404	(910) 452-7290
NC	CHNC	DANNY ROGERS	272-C UNIONVILLE-INDIAN TRAIL ROAD	INDIAN TRAIL	28079	(704) 821-1281
NC	DMNC	BOB HILLIER	2828 INDUSTRIAL DRIVE	RALEIGH	27609	(919) 325-0003
NC	MLNC	SCOTT BAILEY	2205 DISTRIBUTION CENTER DR. SUITE A	CHARLOTTE	28269	(704) 399-2488
NC	RENC	BOB HILLIER	2828 INDUSTRIAL DRIVE	RALEIGH	27609	(919) 325-0003
NC	SHNC	CHARLES BARNES	237 MEDICAL DRIVE	ANGIER	27501	(919) 331-2030
NE	CENE	RAUL AND ANGELA FUNES	438 INDUSTRIAL LANE SUITE E	GRAND ISLAND	68803	(308) 398-0370
NE	LCLN	ROGER FREDSTROM	3641 S 6TH STREET	LINCOLN	68502	(402) 474-1414
NE	NONE	ROGER FREDSTROM MIKE BRANDENBURG	PO BOX 339	COLUMBUS	68602	(402) 564-0220
NE	OMAH	PDO HOLDINGS	3505 S 61ST AVE CIR	OMAHA	68106	(402) 553-0373
NH	SUNH	JOYCE PERRY	12D ELM ROAD	NORTH HAMPTON	03862	(603) 964-8484
NJ	BCNJ	NEWLIN PENG	135 GRAND STREET	CARLSTADT	07072	(201) 584-0000
NJ	MPNJ	JAMES FAGAN	1 FRASETTO WAY	LINCOLN PARK	07035	(973) 832-4540
NJ	NTNJ	NEWLIN PENG	135 GRAND STREET	CARLSTADT	07072	(201) 584-0000
NJ	ONNJ	ANTHONY MARTINO	575 PROSPECT STREET UNIT 201	LAKEWOOD	08701	(732) 886-3001
NJ	SONJ	BILL ELLIOTT	PO BOX 540	HAINESPORT	08036	(609) 265-0001
NJ	WCNJ	ANTHONY PAGLIA	743 RT 524	UPPER FREEHOLD	08501	(908) 343-6150
NM	NEWM	JOHN SHERIFF	7820 4TH STREET NW	ALBUQUERQUE	87107	(505) 884-5583
NM	SFNM	SAM GARCIA	12 BISBEE COURT	SANTA FE	87507	(505) 471-1357
NV	RTNV*	ANDREA AND JAMIE MCVANEY	806 PACKER WAY	SPARKS	89431	(775) 825-7856

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
NY	ALBA	DOUGLAS COMER	831 ROUTE 61, #37	BALLSTON SPA	12020	(518) 899-8101
NY	BRST	JOSEPH PAPALIA MICHAEL PAPALIA	16 SHENANDOAH AVENUE	STATEN ISLAND	10314	(718) 983-5035
NY	CNLI	MARK GUNTNER	16 CAIN DR	BRENTWOOD	11717	(631) 434-1717
NY	FCCT	PDO HOLDINGS	PO BOX 435	POUND RIDGE	10576	(203) 922-3473
NY	FFWC	PDO HOLDINGS	PO BOX 435	POUND RIDGE	10575	(203) 922-3473
NY	GRNY	DAVID SAVAGE	383 LOMBARD STREET	ROCHESTER	14606	(585) 647-9933
NY	MONY	RICHARD BI	241-25 BRADDOCK AVE.	BELLEROSE	11426	(212) 740-6611
NY	NCNY	SCOTT COLBERT	292 RT 33	CENTRAL SQUARE	13036	(315) 676-4473
NY	OCNY	CHRIS SHENK	PO BOX 132	FLORIDA	10921	(845) 742-6432
NY	QCNY	RICHARD BI	241-25 BRADDOCK AVE.	BELLEROSE	11426	(718) 559-6060
OH	AKOH	JEFF SUSZYNSKI	11900 WASHINGTON STREET	AUBURN	44023	(440) 834-1155
OH	CLEW	RON MIFFLIN	424 PEARL ROAD	BRUNSWICK	44212	(330) 220-2002
OH	CMOH	JEFF SUSZYNSKI	11900 WASHINGTON STREET	AUBURN	44023	(440) 834-1155
OH	DTON	MARK BRADLEY	1960 W DOROTHY LANE	DAYTON	45439	(937) 436-3411
OH	GCOH	STEVE RIGSBY	4395 BORON DRIVE	LATONIA	41015	(513) 777-7285
OH	MOTH	PDO HOLDINGS	7465-A WORTHINGTON-GALENA RD	COLUMBUS	43085	(617) 367-9611
OH	TOLE	PRISCILLA D ANNIBALLE	9540 AIRPORT HIGHWAY	MONCLOVIA	43542	(419) 866-9844
OK	NOOK	JEFF GOLDMAN	13770 LINCOLN BLVD,	EDMUND	73013	(405) 751-2939
OK	TULS	TOM CULVER	10344-B EAST 58TH STREET	TULSA	74146	(918) 663-5848
OR	CCOR	JUSTIN GRAHAM	14300 NE 20 <sup>TH</sup> AVENUE, SUITE D-102	VANCOUVER	98686	(360) 823-1388
OR	WCOR	JUSTIN GRAHAM	14300 NE 20 <sup>TH</sup> AVENUE, SUITE D-102	VANCOUVER	98686	(360) 823-1388
PA	ACPA	GREG YOUNG	P.O. BOX 312	BRADFORDWOODS	15015	(724) 799-8290
PA	GRPS	PDO HOLDINGS INC	1704 HEMPSTEAD RD	LANCASTER	17601	(717) 291-6000
PA	LLCO	PDO HOLDINGS, INC	1704 HEMPSTEAD ROAD	LANCASTER	17601	(717) 291-6000
PA	LVPA	JOHN DELUCA	1515 GEHMAN ROAD	HARLEYSVILLE	19438	(484) 273-7867
PA	MBPA	JOHN DELUCA	1515 GEHMAN ROAD	HARLEYSVILLE	19438	(484) 273-7867
PA	PABC	MIKE LEES	225 LINCOLN HIGHWAY STE 205	FAIRLESS HILLS	19030	(267) 202-8559
PA	SVPA	SHANE BEHMER	621 LOWTHER ROAD	LEWISBERRY	17339	(717) 413-9264
PA	WNPA	RAY KELOSKY	1600 WEST LAWRENCE AVE	ELLWOOD CITY	16117	(724) 758-6540
RI	RDIS	JOHN GUGLIOTTA	100 MINNESOTA AVE	WARWICK	02888	(401) 821-8996
SC	BEAU	MIKE CHERRY	163 BLUFFTON ROAD, UNIT C	BLUFFTON	29910	(843) 757-3236

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
		JOANNA CHERRY MD BUCK				
SC	CHSC	KENNY GAMBLE	419 JESSEN LANE SUITE B	CHARLESTON	29492	(843) 216-3331
SC	COLM	WILLIAM ELLISON	117 VERA ROAD	LEXINGTON	29072	(803) 796-4343
SC	GVSC	BRUCE KO	1684 OLD HIGHWAY 14 SOUTH	GREER	29651	(864) 801-0018
SC	RHSC	DANNY ROGERS	1051 ALBRIGHT ROAD SUITE 105	ROCK HILL	29730	(803) 329-1140
TN	CHAT	MAX BILLER	6622 LEE HIGHWAY	CHATTANOOGA	37421	(423) 899-2406
TN	GRKX	JOSH SKEENS	333 TROY CIRCLE STE E	KNOXVILLE	37919	(865) 584-1227
TN	MITN	RANDALL JUDGE	701 HILL AVENUE	NASHVILLE	37210	(615) 837-4400
TN	MSTN	JOHN BLOSE	2093 THOMAS ROAD SUITE 6	MEMPHIS	38134	(901) 373-5394
TN	NMMS	JOHN BLOSE	2093 THOMAS ROAD SUITE 6	MEMPHIS	38134	(601) 797-4297
TX	ASTX	DAVID FRENCH	2112 RUTLAND DR STE 200	AUSTIN	78758	(512) 366-5699
TX	CHTX	BOB HILLIER	18850 HIGHWAY 59 N	HUMBLE	77338	(281) 886-7755
TX	DFTX	ERIC CAGLE RYAN KIENTZLER	2205 HUTTON DRIVE	CARROLLTON	75006	(469) 289-6376
TX	DNTX	ERIC CAGLE, RYAN KIENTZLER	2205 HUTTON DRIVE	CARROLLTON	75006	(469) 289-6376
TX	FWTX	STEFANI WATSON RYAN WATSON	2205 HUTTON DRIVE	CARROLLTON	75006	(469) 289-6376
TX	GATX	BOB HILLIER	18850 HIGHWAY 59 N	HUMBLE	77338	(281) 886-7755
TX	KHTX	BOB HILLIER	16518-A ALDINE WESTFIELD ROAD	HOUSTON	77032	(281) 886-7755
TX	NATX	DAVID FRENCH	2112 RUTLAND DR STE 200	AUSTIN	78758	(512) 366-5699
TX	NHTX	BOB HILLIER	18850 HIGHWAY 59 N	HUMBLE	77338	(281) 886-7755
TX	NMTX	RYAN KIENTZLER ERIC CAGLE	710 S. ELM ST.	DENTON	76201	(940) 808-0647
TX	PCTX	RYAN KIENTZLER ERIC CAGLE	710 S. ELM STREET	DENTON	76201	(940) 808-0647
TX	SEHT	BOB HILLER	16518-A ALDINE WESTFIELD ROAD	HOUSTON	77032	(281) 886-7755
TX	SPTX	BOB HILLIER	16518-A ALDINE WESTFIELD ROAD	HOUSTON	77032	(281) 886-7755
TX	WCTX	BOB HILLIER	16518-A ALDINE WESTFIELD ROAD	HOUSTON	77032	(281) 886-7755
TX	WFTX	STEFANI WATSON RYAN WATSON	1953 GOLDEN HEIGHTS ROAD STE 1401	FT. WORTH	76177	(682) 841-1788
TX	WHTX	BOB HILLIER	18850 HIGHWAY 59 N	HUMBLE	77338	(281) 886-7755
UT	UTSL	BRANDON RADMALL	595 N. 1250 W. SUITE 1	CENTERVILLE	84014	(801) 299-1000

ST*	CODE	OWNERS	STREET	CITY	ZIP	TELEPHONE
UT	UTSO	BRANDON RADMALL	595 N. 1250 W SUITE 1	CENTERVILLE	84014	(801) 299-1000
UT	UTWF	BRANDON RADMALL	595 N 1250 W. SUITE 1	CENTERVILLE	84014	(801) 299-1000
VA	CEVA	JON DUMAN	45 D BUSINESS PARK DRIVE	RUCKERSVILLE	22968	94340 990-9911
VA	GFVA	PAUL GOLKIN PENNY GOLKIN ANDREW GOLKIN ALEXIS GOLKIN	8773 VIRGINA MEADOWS DRIVE	MANASSAS	20109	(703) 335-2424
VA	GRVA	KEN BAKER	7421 WHITEPINE ROAD	CHESTERFIELD	23237	(804) 533-7285
VA	LRVA	JAN VANOSTRAND TAL BOWMAN	1807 MURRAY ROAD SW STE. N	ROANOAKE	24018	(540) 981-1882
VA	NRVA	KEVIN CRAWFORD	9644 SOUTH CONGRESS STREET	NEW MARKET	22844	(540) 740-2696
VA	NTVA	KEVIN SULLIVAN TIM SULLIVAN	44880 FALCON PLACE, SUITE 105	STERLING	20166	(703) 880-3090
VA	TRIC	CHARLES SKEENS	37 FOUR WINDS ROAD	BRISTOL	24202	(276) 669-7208
VA	WMVA	PDO HOLDINGS, INC.	133 POWHATAN DRIVE	WILLIAMSBURG	23188	(757) 220-2660
VA	WRVA	MATTHEW HUGHES	2119 DABNEY ROAD	RICHMOND	23230	(804) 330-9500
VT	NOVT	KEN WILLIAMS	404 WOLCOTT STREET	HARDWICK	05843	(802) 472-9100
WA	EKWA	PDO HOLDINGS	914 164TH STREET SE SUITE 233	MILL CREEK	98012	(425) 486-5362
WA	GVWA	JUSTIN GRAHAM	14300 NE 20 <sup>TH</sup> AVENUE, SUITE D-102	VANCOUVER	98686	(360) 823-1388
WA	OPWA	JOHN ELLIOTT	5538 CRUISER LOOP ROAD	PORT ORCHARD	98367	(360) 377-1647
WA	TAWA	JASON HARDY	3204 20 <sup>TH</sup> STREET EAST	FIFE	98424	(253) 215-9000
WA	WAWK	PDO HOLDINGS	15004 35TH AVE W. SUITE A	LYNNWOOD	98087	(206) 364-3000
WI	LLCY	JIM HIRSCH CRAIG SLAGER	3236 COUNTY HIGHWAY N	COTTAGE GROVE	53527	(608) 839-4100
WI	SEWI	JEFF HERTEL TIMOTHY GUILLETTE BRADYCHUCKEL	2000 SOUTH 4TH ST	MILWAUKEE	53204	(414) 383-3131
WV	MDWV	MARK ZIMMERMAN	329 ARDEN NOLLVILLE RD STE. 10	INWOOD	25428	(304) 707-3292
US	PDN	PDOHOLDINGS	7251 Salisbury Road, Suite 6	JACKSONVILLE	32256	(904) 737-2779

#### \*PDES CONVERSIONS

**THE FOLLOWING PAUL DAVIS RESTORATION FRANCHISES WERE TERMINATED OR CEASED OPERATING DURING 2021**

<b>ST</b>	<b>CODE</b>	<b>OWNERS</b>	<b>STREET</b>	<b>CITY</b>	<b>ZIP</b>	<b>TELEPHONE</b>
MA	HCMA	DAVE LESSAGE/JIM HAGER		SPRINGFIELD	01103	(413) 543-5001
MD	WSMD	CHARLES MACPHERSON	12340 CRAIN HIGHWAY, SUITE 300	NEWBURG	20664	(240) 832-3960
ME	CNME	KEITH TREMBLEY	PO BOX 428	OLD TOWN	04468	(207) 827-4205
MI	FSMI	MATT VONDRASEK ANDREW KENNEY	1215 CORUNNA AVENUE	OWOSSO	48867	(989) 725-6675
TN	WTTN	WESLEY WOLFE	PO BOX 12445	JACKSON	38308	(731) 951-0166
TX	CATX	TOMMY ROBERTS	2101 LAKEWAY BLVD SUITE 215	LAKEWAY	78734	(512) 795-4161

**THE FOLLOWING PAUL DAVIS RESTORATION FRANCHISES TRANSFERRED DURING 2021**

<b>ST*</b>	<b>CODE</b>	<b>OWNERS</b>	<b>STREET</b>	<b>CITY</b>	<b>ZIP</b>	<b>TELEPHONE</b>
FL	ORLA	ROB FORBES SARITA FORBES	5104 FORSYTH COMMERCE ROAD	ORLANDO	32807	(407) 629-6700
FL	TEAM	SHARON CAROTHERS MICHAEL EDWARDS	2781 VISTA PARKWAY SUITE 12	WEST PALM BEACH	33411	(561) 478-7272
GA	GANE	LARRY GILL	2350 PRINCE AVENUE SUITE 2	ATHENS	30606	(706) 548-5800
IL	LAIL	NORM KERR	28270 BALLARD DRIVE UNIT D	LAKE FOREST	60045	(847) 362-6777
IN	NEIN	DAN LEFFERS	3010-1 BUTLER RIDGE PARKWAY	FORT WAYNE	46808	(260) 436-7510
NC	ECNC	SAM CHRISTNER	272-C UNIONVILLE-INDIAN TRAIL ROAD	INDIAN TRAIL	28079	(704) 821-1281
NJ	MCNJ	DAVE MCFADDEN BRIAN MULLIN	575 PROSPECT STREET UNIT 201	LAKEWOOD	08701	(732) 886-3001
NJ	WCNJ	ANTHONY PAGLIA	743 RT 524	UPPER FREEHOLD	08501	(908) 343-6150
TX	NDFW	JEFF NELSON	6201 TECHNOLOGY DRIVE SUITE 119	FRISCO	75003	(214) 618-7766

**EXHIBIT B-1**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**FINANCIAL STATEMENTS**

# **FS Brands, Inc.**

Consolidated Financial Statements  
**December 31, 2021 and**  
**December 31, 2020**  
(expressed in US dollars)



## **Report of Independent Auditors**

To the Stockholders of FS Brands, Inc.

### ***Opinion***

We have audited the accompanying consolidated financial statements of FS Brands, Inc. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2021 and December 31, 2020, and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders’ equity and consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Consolidated Financial Statements***

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

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



### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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

In performing an audit in accordance with US GAAS, we:

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

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

*PricewaterhouseCoopers LLP*

Toronto, Ontario, Canada  
March 3, 2022

**FS Brands, Inc.**  
Consolidated Balance Sheets  
As at December 31, 2021 and December 31, 2020

(expressed in US dollars)

	2021 \$	2020 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	64,566,329	88,795,549
Restricted cash	10,677,487	6,259,023
Accounts receivable – net of allowance for doubtful accounts of \$6,166,248 (2020 – \$7,432,017)	47,835,151	40,738,912
Notes receivable (note 6)	2,845,266	1,067,941
Inventories	26,851,976	21,083,207
Prepaid expenses and other current assets	14,851,733	10,076,874
Income taxes recoverable (note 11)	9,179,394	5,943,733
	176,807,336	173,965,239
<b>Notes receivable</b> (note 6)	8,693,666	8,740,990
<b>Other assets</b>	6,088,395	5,864,706
<b>Property and equipment</b> (note 7)	42,127,045	37,688,711
<b>Intangible assets</b> (note 8)	25,584,760	24,863,375
<b>Goodwill</b> (note 9)	92,144,276	81,942,052
<b>Operating lease right-of-use asset</b>	38,074,827	36,032,257
	<u>389,520,305</u>	<u>369,097,330</u>

**Approved by the Board of Directors**

\_\_\_\_\_  
Director \_\_\_\_\_ Director

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

**FS Brands, Inc.**Consolidated Balance Sheets...*continued***As at December 31, 2021 and December 31, 2020**

(expressed in US dollars)

	<b>2021</b> \$	<b>2020</b> \$
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	11,530,513	13,299,995
Accrued liabilities	59,329,417	42,384,098
Notes payable (note 12)	454,286	435,000
Deferred revenue and customer deposits	48,047,327	32,041,418
Due to ultimate parent	11,251,340	7,593,615
Due to parent company	3,259,862	3,421,796
Operating lease liabilities – current	8,819,383	8,338,340
	<u>142,692,128</u>	<u>107,514,262</u>
<b>Notes payable</b> (note 12)	428,571	857,143
<b>Deferred revenues</b>	14,603,412	13,404,747
<b>Long-term value appreciation rights</b>	2,724,651	1,890,722
<b>Income taxes payable</b> (note 11)	186,059	186,059
<b>Deferred income taxes</b> (note 11)	7,160,698	6,829,369
<b>Operating lease liabilities</b> – non-current	31,278,258	29,563,378
	<u>199,073,777</u>	<u>160,245,680</u>
<b>Non-controlling interests</b> (note 14)	28,256,345	18,767,098
<b>Stockholders' Equity</b>		
<b>Common stock</b>	1	1
<b>Additional paid-in capital</b>	29,529,067	29,529,067
<b>Retained earnings</b>	132,661,115	160,555,484
	<u>162,190,183</u>	<u>190,084,552</u>
	<u>389,520,305</u>	<u>369,097,330</u>

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

**FS Brands, Inc.****Consolidated Statements of Income and Comprehensive Income  
For the years ended December 31, 2021 and December 31, 2020**

(expressed in US dollars)

	<b>2021</b> \$	<b>2020</b> \$
<b>Revenue</b>		
Royalties (note 3)	87,815,731	70,476,363
Franchise fees	4,398,890	4,153,582
Merchandise sales	338,168,074	286,162,253
Services and other	74,067,901	58,149,261
	<u>504,450,596</u>	<u>418,941,459</u>
<b>Costs and expenses</b>		
Franchise operating	27,192,498	21,657,219
Cost of merchandise sales	238,949,248	200,653,290
Cost of services	6,221,708	5,167,179
General and administrative	155,107,036	125,729,239
Management fees to parent (note 5)	7,418,510	4,430,219
Depreciation and amortization	19,807,499	20,801,420
	<u>454,696,499</u>	<u>378,438,566</u>
<b>Income from operations</b>	<u>49,754,097</u>	<u>40,502,893</u>
<b>Other income (expense)</b>		
Interest income	427,208	571,979
Interest expense	-	-
	<u>427,208</u>	<u>571,979</u>
<b>Income before income taxes</b>	50,181,305	41,074,872
<b>Provision for income taxes</b> (note 11)	13,315,914	11,005,369
<b>Net income for the year</b>	36,865,391	30,069,503
<b>Non-controlling interests' share of earnings</b> (note 14)	(2,350,221)	(1,526,754)
<b>Non-controlling interests redemption increment</b> (note 14)	(8,058,800)	(2,570,391)
<b>Net income and comprehensive income attributable to common stockholders for the year</b>	<u>26,456,370</u>	<u>25,972,358</u>

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

**FS Brands, Inc.****Consolidated Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2021 and December 31, 2020**

(expressed in US dollars)

	<b>Common stock \$</b>	<b>Additional paid-in capital \$</b>	<b>Retained earnings \$</b>	<b>Total \$</b>
<b>Balance – December 31, 2019</b>	1	29,529,067	134,677,669	164,206,737
Impact of CECL standard	-	-	(51,705)	(51,705)
Other movements	-	-	(42,838)	(42,838)
Net income and comprehensive income attributable to common stockholders for the year	-	-	25,972,358	25,972,358
<b>Balance – December 31, 2020</b>	1	29,529,067	160,555,484	190,084,552
Other movements	-	-	208,796	208,796
Dividends	-	-	(54,559,535)	(54,559,535)
Net income and comprehensive income attributable to common stockholders for the year	-	-	26,456,370	26,456,370
<b>Balance – December 31, 2021</b>	1	29,529,067	132,661,115	162,190,183

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

# FS Brands, Inc.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and December 31, 2020

(expressed in US dollars)

	2021 \$	2020 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	36,865,391	30,069,503
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment (note 7)	15,705,978	14,851,981
Amortization of intangible assets	4,101,521	5,949,439
Deferred income taxes	58,327	722,653
Change in non-cash working capital (note 13)	11,736,088	25,173,976
	<u>68,467,305</u>	<u>76,767,552</u>
<b>Investing activities</b>		
Purchase of property and equipment	(19,247,316)	(11,681,756)
Acquisition of businesses	(14,212,272)	(21,800)
	<u>(33,459,588)</u>	<u>(11,703,556)</u>
<b>Financing activities</b>		
Advance from parent	3,495,791	3,466,199
Advance of notes payable	(409,286)	(1,380,622)
Purchase of non-controlling interest (note 14)	(2,276,657)	(2,128,811)
Sales of shares to non-controlling interests	1,350,117	-
Payment of dividends to parent	(52,689,410)	-
Payment of dividends to non-controlling interests	(4,289,028)	(1,619,722)
	<u>(54,818,473)</u>	<u>(1,662,956)</u>
<b>Increase in cash and cash equivalents during the year</b>	(19,810,756)	63,401,040
<b>Cash and cash equivalents – Beginning of year</b>	<u>95,054,572</u>	<u>31,653,532</u>
<b>Cash and cash equivalents – End of year</b>	<u>75,243,816</u>	<u>95,054,572</u>
<b>Supplementary information</b>		
Cash paid for interest and dividends	(181,562)	(271,125)
Cash paid for income taxes	11,743,547	11,755,401

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

# **FS Brands, Inc.**

## **Notes to Consolidated Financial Statements December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

### **1 Nature of business operations**

FS Brands, Inc. (the Company), incorporated on March 31, 2010, is a 97.18% owned subsidiary of FS Property Services (U.S.) Inc. (the parent), which is indirectly a 100% owned subsidiary of FirstService Corporation (the ultimate parent), a publicly owned, diversified real estate services company.

Through the following subsidiaries, CertaPro Painters Ltd., Paul Davis Restoration, Inc., California Closet Company, Inc., Pillar to Post, Inc. and Floor Coverings International, Ltd., the Company's principal function is the recruiting, training and operation of franchise systems throughout the United States. In addition, the Company controls 20 California Closet franchises and 11 Paul Davis Restoration franchises.

### **2 Risk and uncertainties**

Currently, one of the most significant risks and uncertainties is the potential adverse effect of the current pandemic of the novel coronavirus, or COVID-19. The COVID-19 pandemic in North America has had an impact on most of the Company's operations, particularly its service lines tied to home improvement. All of its businesses have been designated essential services in most of their geographic regions. The various "stay-at-home" and social distancing measures continue to impact the Company's ability to operate on the premises of its residential and commercial customers. Although many regions where the Company operates have re-opened, it is challenging to predict the financial performance in upcoming reporting periods with reasonable accuracy due to the lack of visibility around the duration and severity of the crisis and its dynamic changes.

### **3 Summary of significant accounting policies**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates made by management relate to the collectability of accounts receivable and notes receivable, reserves for uncertain tax positions, the initial determination of fair values of assets acquired and liabilities assumed in business combinations and the assessment of potential impairment of goodwill and intangible assets. Actual results could differ from those estimates.

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**Revenue recognition and unearned revenue**

The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Company measures revenue based on consideration specified in the contract of each customer and recognizes revenue as the performance obligations are satisfied by transferring the control of the service or product to a customer.

- **Franchisor operations**

The Company operates several franchise systems. Initial franchise fees are deferred and recognized over the term of the franchise agreement. Royalty revenue is recognized based on a contracted percentage of franchisee revenue, as reported by the franchisees. Revenue from administrative and other support services, as applicable, is recognized as the services are provided.

The Company's franchise systems operate marketing funds on behalf of franchisees. Advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis in the Company's consolidated statements of income and comprehensive income. To the extent that contributions received exceed advertising expenditures, the excess amount is accrued and offset as a deferred liability, whereas any expenditures in excess of contributions are expensed as incurred. As such, advertising fund contributions and the related revenue and expenses may be reported in a different period.

- **Revenue from construction contracts and service operations other than franchisor operations**

Revenue is recognized at the time the service is rendered. Certain services, including but not limited to construction contracts and real estate project management work-in-process, are recognized over time based on percentage of completion, a ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period when the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

**Cash and cash equivalents**

The Company considers all investments readily convertible into cash and having an initial maturity of three months or less to be cash equivalents. Cash equivalents include money market funds and time deposits, which are carried at cost and approximate fair value.

**Restricted cash**

Restricted cash comprises cash restricted for marketing fund use. The Company is in custody of the cash received from franchisees for use in franchisee marketing funds.

Per the guidance issued by the Financial Accounting Standards Board (FASB) on restricted cash (Accounting Standards Update (ASU) No. 2016-18), the Company's consolidated statements of cash flows explain the change during the period in the total of cash and cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The Company's restricted cash balance consists primarily of cash related to our marketing funds.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**Inventories**

Inventories consist of finished products, accessories and components of closet and workspace systems, painting kits, film and supplies held for resale. Inventories are valued at the lower of cost (first in, first out) and net realizable value. Work-in-progress inventory relates to construction contracts in process and is accounted for using the percentage of completion method.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated on a straight-line basis over the lesser of the useful life of the asset or the remaining lease term.

Maintenance and repairs are expensed to operations as incurred, while betterments and additions are capitalized. On sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reflected in income.

**Goodwill and intangible assets**

Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at a fair value on the date they are acquired and are amortized using the straight-line method over their estimated useful lives as follows:

Customer relationships	4 to 20 years
Trademark	15 to 30 years
Franchise agreements	pattern of use

Goodwill is tested for impairment annually, on August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, no further testing is required. When the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount, a goodwill impairment test is performed.

**Impairment of long-lived assets**

The Company reviews the carrying amount of its long-lived assets including, but not limited to, property and equipment and intangible and other assets, if events or changes in circumstances indicate the asset might be impaired. The carrying amount of a long-lived asset group is considered impaired when the undiscounted cash flow from such asset group is estimated to be less than its carrying amount. In that event, a loss is recognized as the amount by which the carrying amount exceeds its fair value. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived asset groups to be disposed of would be determined in a similar manner, except that fair value would be reduced by any costs of disposal.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**Deferred revenue and customer deposits**

Deferred revenue represents payments received in connection with services to be provided in the future and is recognized when the services have been provided. Customer deposits represent payments received as deposits in connection with California Closet products to be installed.

**Leases**

The Company adopted ASU 842, Leases, as of January 1, 2019 using the modified retrospective approach. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification.

The Company has lease agreements with lease and non-lease components and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the balance sheet when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

**Income taxes**

Income tax has been provided using the asset and liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse, be recovered or be settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

**Non-controlling interests**

The non-controlling interests are considered to be redeemable securities and accordingly are recorded at the greater of (i) the redemption amount; or (ii) the amount initially recorded as a non-controlling interest at the date of inception of the minority equity position. This amount is recorded in the mezzanine section of the consolidated balance sheet, outside of stockholders' equity. Changes in the non-controlling interests amount are recognized immediately as they occur.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**Fair value measurements**

Fair value measurements are measured using inputs from the three levels of the fair value hierarchy. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – observable market based inputs other than quoted prices in active markets for identical assets or liabilities; and

Level 3 – unobservable inputs.

**Concentrations**

The Company's financial instruments exposed to credit risk include cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Company places its cash, restricted cash and cash equivalents with institutions of high creditworthiness. Management routinely assesses the collectability of its accounts receivable and notes receivable and its credit risk is limited due to the dispersion of the customer base comprising the receivables.

**4 Revenue from contracts with customers**

Franchise fee revenue recognized during the twelve months ended December 31, 2021 that was included in deferred revenue at the beginning of the period was \$4,189,800 (2020 – \$3,894,494). These fees are recognized over the life of the underlying franchise agreement, usually between 5 – 10 years.

External broker costs and employee sales commissions in obtaining new franchisees are capitalized in accordance with the revenue standard and are amortized over the life of the underlying franchise agreement. Costs amortized during the twelve months ended December 31, 2021 were \$1,979,515 (2020 – \$1,888,243). The closing amount of the capitalized costs to obtain contracts on the balance sheet as at December 31, 2021 was \$7,295,196 (2020 – \$7,156,920). There were no impairment losses recognized related to those assets in 2021.

Disaggregated revenue is as follows:

	<b>Twelve months ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Revenue recognized		
Point in time	499,635,473	414,423,823
Over time	4,815,123	4,517,636

The Company disaggregates revenue by point in time and over time.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**5 Transactions with related parties**

**Management fees**

The Company has a management agreement with the parent that provides certain administrative and management services to the Company. For the years ended December 31, 2021 and December 31, 2020, the fees for such services totalled \$7,418,510 (2020 – \$4,430,219). These transactions were in the normal course of operations and were measured at the exchange amount.

**6 Notes receivable**

The Company has notes receivable from franchisees for various franchise fees and royalties. These notes bear interest at rates ranging from nil% to 8%, are unsecured and are repayable in monthly instalments. Also included in notes receivable are amounts owing from certain non-controlling interest stockholders. The total amount due from non-controlling interests is \$202,062 (2020 – \$202,062). The interest rate on these notes is 2.5%.

As at December 31, 2021, annual maturities on the notes receivable are as follows:

	\$
2022	2,845,266
2023	7,619,982
2024	307,098
2025	199,984
2026	99,057
Thereafter	<u>590,317</u>
	11,661,704
Less: Allowance for doubtful accounts	<u>122,769</u>
	11,538,935
Less: Current portion	<u>2,845,266</u>
	<u>8,693,669</u>

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2021 and December 31, 2020

(expressed in US dollars)

**7 Property and equipment**

		<b>2021</b>		
	<b>Depreciation period</b>	<b>Gross carrying amount \$</b>	<b>Accumulated depreciation \$</b>	<b>Net \$</b>
Production equipment	5 to 7 years	28,315,940	20,692,674	7,623,266
Vehicles	5 years	25,238,074	14,757,497	10,480,577
Furniture and fixtures	5 to 7 years	12,294,984	8,091,964	4,203,020
Computers and equipment	3 to 5 years	37,439,576	22,088,186	15,351,390
Computer software	3 to 5 years	1,361,498	689,048	672,450
Leasehold improvements	lease term	16,372,266	12,575,922	3,796,344
		<b>121,022,338</b>	<b>78,895,291</b>	<b>42,127,047</b>
		<b>2020</b>		
	<b>Depreciation period</b>	<b>Gross carrying amount \$</b>	<b>Accumulated depreciation \$</b>	<b>Net \$</b>
Production equipment	5 to 7 years	27,247,644	17,832,134	9,415,510
Vehicles	5 years	20,287,515	13,083,245	7,204,270
Furniture and fixtures	5 to 7 years	11,685,576	6,150,598	5,534,978
Computers and equipment	3 to 5 years	28,158,527	19,264,448	8,894,079
Computer software	3 to 5 years	5,876,596	5,121,383	755,213
Leasehold improvements	lease term	17,135,511	11,250,850	5,884,661
		<b>110,391,369</b>	<b>72,702,658</b>	<b>37,688,711</b>

Depreciation expense totalled \$15,705,978 (2020 – \$14,625,798) for the years ended December 31, 2021 and December 31, 2020.

**8 Intangible assets**

		<b>2021</b>		
		<b>Gross carrying amount \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Trademarks		10,774,498	6,950,220	3,824,278
Franchise agreements		41,933,677	28,705,335	13,228,342
Customer relationship		15,046,611	6,514,484	8,532,127
Non-compete and other		633,165	633,165	-
		<b>68,387,951</b>	<b>42,803,204</b>	<b>25,584,747</b>

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2021 and December 31, 2020

(expressed in US dollars)

	2020		
	Gross carrying amount \$	Accumulated amortization \$	Net \$
Trademarks	10,774,498	6,617,093	4,157,405
Franchise agreements	40,840,771	25,849,676	14,991,095
Customer relationship	11,316,611	5,601,736	5,714,875
Non-compete and other	633,165	633,165	-
	<u>63,565,045</u>	<u>38,701,670</u>	<u>24,863,375</u>

Amortization expense totalled \$4,101,521 (2020 – \$5,949,439) for the years ended December 31, 2021 and December 31, 2020.

The following is the estimated annual amortization expense for each of the next five years:

	\$
2022	4,201,738
2023	4,201,738
2024	3,464,842
2025	3,464,842
2026	3,464,842

## 9 Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired. Based on the quantitative assessment in 2021, the Company has concluded that goodwill is not impaired.

	\$
<b>Balance as at December 31, 2019</b>	81,920,252
Goodwill adjustment during the year	<u>21,800</u>
<b>Balance as at December 31, 2020</b>	81,942,052
Goodwill acquired during the year	10,514,739
Goodwill adjustment during the year	<u>(312,515)</u>
<b>Balance as at December 31, 2021</b>	<u>92,144,276</u>

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2021 and December 31, 2020

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(expressed in US dollars)

### 10 Leases

The Company has operating leases for corporate offices, copiers and certain equipment. Its leases have remaining lease terms of 1 year to 10 years, some of which may include options to extend the leases for up to 8 years, and some of which may include options to terminate the leases within 1 year. The Company evaluates renewal terms on a lease by lease basis to determine if the renewal is reasonably certain. The amount of operating lease expense recorded in the consolidated statement of earnings was \$10,122,570 (2020 – \$9,608,390).

Other information related to leases was as follows:

#### **Supplemental cash flows information, twelve months ended December 31, 2021**

Cash paid for amounts included in the measurement of operating lease liabilities	\$9,906,790
Right-of-use assets obtained in exchange for operating lease obligation	\$12,531,158
Weighted average remaining operating lease term	5 years
Weighted average discount rate	3.4%

The following represent operating lease commitments:

	\$
2022	9,966,511
2023	9,317,725
2024	7,506,799
2025	5,711,360
2026 and thereafter	9,900,132
	<u>42,402,527</u>

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2021 and December 31, 2020**

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(expressed in US dollars)

**11 Income taxes**

The components of the provision for income taxes are as follows:

	2021 \$	2020 \$
Current provision		
Federal	10,119,645	7,594,150
State	3,137,937	2,688,564
	<u>13,257,582</u>	<u>10,282,714</u>
Deferred recovery		
Federal	(133,850)	418,280
State	192,177	304,375
	<u>58,327</u>	<u>722,655</u>
	<u>13,315,909</u>	<u>11,005,369</u>

The components of deferred income tax assets and liabilities are as follows:

	2021 \$	2020 \$
Deferred income tax assets		
Accrued expenses	5,372,555	5,239,498
Bad debt	1,403,541	1,751,910
Future benefit of tax losses	816,206	669,370
	<u>7,592,302</u>	<u>7,660,778</u>
Deferred income tax liabilities		
Purchased goodwill and intangible assets	6,033,141	5,757,251
Property and equipment	7,320,790	7,456,108
Investment in partnership	672,989	672,989
	<u>14,026,920</u>	<u>13,886,348</u>
Net deferred income tax liabilities before valuation allowance	6,434,618	6,225,570
Valuation allowance	726,080	603,799
Net deferred income tax liabilities	<u>7,160,698</u>	<u>6,829,369</u>

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
December 31, 2021 and December 31, 2020

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(expressed in US dollars)

The aggregate change in the balance of uncertain tax positions for the year ended December 31, 2021 was as follows:

	\$
Balance – Beginning of year	186,059
Reduction for lapses in applicable statute of limitations	-
Balance – End of year	<u>186,059</u>

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's taxing jurisdiction is the United States of America. With few exceptions, the Company is no longer subject to US federal, state and local income tax examinations by tax authorities for years before 2015.

The Company does not currently expect any material impact on earnings to result from the resolution of matters relating to open taxation years; however, actual settlements may differ from amounts accrued. Currently, it is not reasonably possible to determine whether unrecognized tax benefits will increase or decrease within the next 12 months with respect to settlements of tax audits. The Company has made its current estimates on facts and circumstances known to date and cannot predict subsequent or changed facts and circumstances that could affect its current estimates.

## 12 Notes payable

	2021 \$	2020 \$
Promissory note, unsecured, payable in annual instalments through January 2023, interest at 2%	882,858	1,292,143
Other debt related to holdback due to seller	-	-
Less: Current portion	<u>454,287</u>	<u>435,000</u>
	<u>428,571</u>	<u>857,143</u>

## 13 Change in non-cash working capital

	2021 \$	2020 \$
Accounts receivable	(4,330,598)	15,497,623
Inventories	(5,187,631)	(2,968,130)
Notes receivable	(1,730,001)	2,643,159
Prepaid expenses and other current assets	(4,949,938)	2,330,333
Accounts payable	(1,792,448)	(2,368,956)
Accrued liabilities	16,204,166	1,165,297
Deferred revenue and customer deposits	16,498,965	9,378,917
Income taxes	(3,026,871)	(961,831)
Other liabilities	<u>50,444</u>	<u>457,564</u>
	<u>11,736,088</u>	<u>25,173,976</u>

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2021 and December 31, 2020

(expressed in US dollars)

### 14 Non-controlling interests

The following table provides a reconciliation of the beginning and ending amounts for non-controlling interests (NCI):

	2021 \$	2020 \$
Balance – Beginning of year	18,767,098	18,418,486
Share of earnings of NCI	2,350,221	1,526,754
Redemption increment of NCI	8,058,800	2,570,391
Distributions paid to NCI	(2,418,908)	(1,619,722)
Purchase of NCI	(2,276,657)	(2,128,811)
Sale of NCI	3,775,791	-
NCI reorganized on business disposal	-	-
Balance – End of year	28,256,345	18,767,098

The Company has stockholders' agreements in place at each of its non-wholly owned subsidiaries. These agreements allow the Company to call the NCI at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net income before extraordinary items, income taxes, interest, depreciation and amortization. The agreements also have redemption features, which allow the owners of the NCI to put their equity into the Company at the same price, subject to certain limitations. The formula price is referred to as the redemption amount and may be settled in cash or with the ultimate parent's shares. The redemption amount as at December 31, 2021 and December 31, 2020 is \$28,256,350 (2020 – \$18,767,098).

### 15 Letters of credit

College Pro Painters (U.S.) Ltd. is required to obtain irrevocable bank letters of credit totalling \$311,649 (2020 – \$311,649). The letters of credit are to remain open for the duration of certain stop-loss insurance policies or until all insurance claims against College Pro Painters (U.S.) Ltd. have been settled.

### 16 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The following are estimates of the fair values for other financial instruments:

	Carrying amount \$	Fair value \$
Notes receivable	11,538,932	10,252,261
Notes payable	882,858	865,798
Contingent consideration	2,536,856	2,536,856

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2021 and December 31, 2020

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(expressed in US dollars)

Notes receivable include amounts due from franchisees and non-controlling stockholders. Notes payable include amounts due to vendors in connection with business acquisitions. The fair values of these instruments are determined using a valuation model with prevailing interest rates obtained from third parties. The inputs are unobservable and thus classified as Level 3 and relate to future cash flows and discount rates, which requires the Company to develop its own assumptions.

### 17 Defined contribution pension plan

The Company contributed \$2,356,024 (2020 – \$2,565,661) to its 401(k) plan during the year, which has been recorded as an expense in each of the respective years.

### 18 Acquisitions

In 2021, the Company completed five acquisitions, the details of which are as follows:

	\$
Current assets	3,346,000
Non-current assets	897,000
Current liabilities	(1,213,000)
Non-current liabilities	(273,000)
Redeemable non-controlling interest	<u>(2,425,000)</u>
Net assets	<u>332,000</u>
Cash consideration	14,212,000
Contingent consideration	<u>1,457,000</u>
Total purchase consideration	<u>15,669,000</u>
Acquired intangible assets	<u>4,823,000</u>
Goodwill	<u>10,514,000</u>

# **FS Brands, Inc.**

Consolidated Financial Statements  
**December 31, 2020 and**  
**December 31, 2019**  
(expressed in US dollars)



February 25, 2021

## **Report of Independent Auditors**

### **To the Stockholders of FS Brands, Inc.**

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

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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*PricewaterhouseCoopers LLP*  
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*  
*T: +1 416 863 1133, F: +1 416 365 8215*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



***Opinion***

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

**FS Brands, Inc.**  
Consolidated Balance Sheets  
As at December 31, 2020 and December 31, 2019

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(expressed in US dollars)

	2020 \$	2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	88,795,549	29,654,826
Restricted cash	6,259,023	1,998,706
Accounts receivable – net of allowance for doubtful accounts of \$7,432,017 (2019 – \$6,550,064)	40,738,912	56,236,535
Notes receivable (note 6)	1,067,941	3,807,956
Inventories	21,083,207	18,115,077
Prepaid expenses and other current assets	10,076,874	13,348,366
Income taxes recoverable (note 11)	5,943,733	5,024,740
	173,965,239	128,186,206
<b>Notes receivable</b> (note 6)	8,740,990	8,644,134
<b>Other assets</b>	5,864,706	4,923,547
<b>Property and equipment</b> (note 7)	37,688,711	40,858,936
<b>Intangible assets</b> (note 8)	24,863,375	30,812,814
<b>Goodwill</b> (note 9)	81,942,052	81,920,252
<b>Operating lease right-of-use asset</b> (note 10)	36,032,257	33,464,121
	<u>369,097,330</u>	<u>328,810,010</u>

**Approved by the Board of Directors**

\_\_\_\_\_ Director \_\_\_\_\_ Director

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

**FS Brands, Inc.**Consolidated Balance Sheets...*continued*

As at December 31, 2020 and December 31, 2019

(expressed in US dollars)

	2020 \$	2019 \$
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	13,299,995	15,668,951
Accrued liabilities	42,384,098	40,527,475
Notes payable (note 12)	435,000	1,387,051
Deferred revenue and customer deposits	32,041,418	23,936,145
Due to ultimate parent (note 5)	7,593,615	6,982,567
Due to parent company (note 5)	3,421,796	566,645
Operating lease liabilities – current	8,338,340	7,826,644
	107,514,262	96,895,478
<b>Notes payable</b> (note 12)	857,143	1,285,714
<b>Unearned revenues</b>	13,404,747	12,131,103
<b>Long-term value appreciation rights</b>	1,890,722	2,582,048
<b>Income taxes payable</b> (note 11)	186,059	186,059
<b>Deferred income taxes</b> (note 11)	6,829,369	6,106,716
<b>Operating lease liabilities</b> – non-current	29,563,378	26,997,669
	160,245,680	146,184,787
<b>Non-controlling interests</b> (note 14)	18,767,098	18,418,486
<b>Stockholders' Equity</b>		
<b>Common stock</b>	1	1
<b>Additional paid-in capital</b>	29,529,067	29,529,067
<b>Retained earnings</b>	160,555,484	134,677,669
	190,084,552	164,206,737
	369,097,330	328,810,010

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

**FS Brands, Inc.****Consolidated Statements of Income and Comprehensive Income  
For the years ended December 31, 2020 and December 31, 2019**

(expressed in US dollars)

	<b>2020</b> <b>\$</b>	<b>2019</b> <b>\$</b>
<b>Revenue</b>		
Royalties (note 3)	70,476,363	70,908,765
Franchise fees	4,153,582	4,794,246
Merchandise sales	286,162,253	318,557,953
Services and other	58,149,261	73,034,131
	<u>418,941,459</u>	<u>467,295,095</u>
<b>Costs and expenses</b>		
Franchise operating	21,657,219	26,894,438
Cost of merchandise sales	200,653,290	224,199,103
Cost of services	5,167,179	11,070,226
General and administrative	125,729,239	137,073,029
Management fees to parent (note 5)	4,430,219	4,884,590
Depreciation and amortization	20,801,420	18,824,462
	<u>378,438,566</u>	<u>422,945,848</u>
<b>Income from operations</b>	<u>40,502,893</u>	<u>44,349,247</u>
<b>Other income (expense)</b>		
Interest income	571,979	137,100
Interest expense	-	(471,761)
	<u>571,979</u>	<u>(334,661)</u>
<b>Income before income taxes</b>	41,074,872	44,014,586
<b>Provision for income taxes</b> (note 11)	11,005,369	11,218,325
<b>Net income for the year</b>	30,069,503	32,796,261
<b>Non-controlling interests' share of earnings</b> (note 14)	(1,526,754)	(2,886,840)
<b>Non-controlling interests redemption increment</b> (note 14)	(2,570,391)	2,085,931
<b>Net income and comprehensive income attributable to common stockholders for the year</b>	<u>25,972,358</u>	<u>31,995,352</u>

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

**FS Brands, Inc.****Consolidated Statements of Changes in Stockholders' Equity  
For the years ended December 31, 2020 and December 31, 2019**

(expressed in US dollars)

	<b>Common stock \$</b>	<b>Additional paid-in capital \$</b>	<b>Retained earnings \$</b>	<b>Total \$</b>
<b>Balance – December 31, 2018</b>	1	28,960,316	102,622,594	131,582,911
Sale of subsidiary to related company under common control (note 5)	-	568,751	131,588	700,339
Impact of new lease standard	-	-	(71,865)	(71,865)
Net income and comprehensive income attributable to common stockholders for the year	-	-	31,995,352	31,995,352
<b>Balance – December 31, 2019</b>	1	29,529,067	134,677,669	164,206,737
Impact of new CECL lease standard	-	-	(51,705)	(51,705)
Other movements	-	-	(42,838)	(42,838)
Net income and comprehensive income attributable to common stockholders for the year	-	-	25,972,358	25,972,358
<b>Balance – December 31, 2020</b>	1	29,529,067	160,555,484	190,084,552

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

**FS Brands, Inc.****Consolidated Statements of Cash Flows****For the years ended December 31, 2020 and December 31, 2019**

(expressed in US dollars)

	2020 \$	2019 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	30,069,503	32,796,261
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment (note 7)	14,851,981	13,083,035
Amortization of intangible assets	5,949,439	5,741,427
Deferred income taxes	722,653	345,617
Change in non-cash working capital (note 13)	25,173,976	(5,399,029)
	<u>76,767,552</u>	<u>46,567,311</u>
<b>Investing activities</b>		
Purchase of property and equipment	(11,681,756)	(17,640,339)
Acquisition of businesses	(21,800)	(8,063,000)
Purchase of intangible assets	-	(169,143)
Sale of subsidiary to related company under common control	-	21,405,412
	<u>(11,703,556)</u>	<u>(4,467,070)</u>
<b>Financing activities</b>		
Advance from ultimate parent	-	(21,760,271)
Advance from parent	3,466,199	6,713,166
Advance (payment) of notes payable	(1,380,622)	(1,169,547)
Purchase of non-controlling interest (note 14)	(2,128,811)	737,172
Sales of shares to non-controlling interests	-	(1,001,156)
Payment of dividends to non-controlling interests	(1,619,722)	-
	<u>(1,662,956)</u>	<u>(19,926,606)</u>
<b>Increase in cash and cash equivalents during the year</b>	63,401,040	22,173,635
<b>Cash and cash equivalents – Beginning of year</b>	31,653,532	9,479,897
<b>Cash and cash equivalents – End of year</b>	<u>95,054,572</u>	<u>31,653,532</u>
<b>Supplementary information</b>		
Cash paid for interest and dividends	-	820,861
Cash paid for income taxes	11,755,401	11,560,625

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

# **FS Brands, Inc.**

## **Notes to Consolidated Financial Statements December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

### **1 Nature of business operations**

FS Brands, Inc. (the Company), incorporated on March 31, 2010, is a 96% owned subsidiary of FS Property Services (U.S.) Inc. (the parent), which is indirectly a 100% owned subsidiary of FirstService Corporation (the ultimate parent), a publicly owned, diversified real estate services company.

Through the following subsidiaries, CertaPro Painters Ltd., Paul Davis Restoration, Inc., California Closet Company, Inc., Pillar to Post, Inc. and Floor Coverings International, Ltd., the Company's principal function is the recruiting, training and operation of franchise systems throughout the United States. In addition, the Company controls 19 California Closet franchises and 11 Paul Davis Restoration franchises.

### **2 Risk and uncertainties**

Currently, one of the most significant risks and uncertainties is the potential adverse effect of the current pandemic of the novel coronavirus, or COVID-19. The COVID-19 pandemic in North America has had an impact on most of the Company's operations, particularly its service lines tied to home improvement. All of its businesses have been designated essential services in most of their geographic regions. The various "stay-at-home" and social distancing measures continue to impact the Company's ability to operate on the premises of its residential and commercial customers. Although many regions where the Company operates have re-opened, it is challenging to predict the financial performance in upcoming reporting periods with reasonable accuracy due to the lack of visibility around the duration and severity of the crisis and its dynamic changes.

Given the uncertainties surrounding the impact of the COVID-19 pandemic, the Company took certain actions during the year to preserve liquidity, manage cash flows and strengthen its financial flexibility. Such actions included, but were not limited to, expense containment initiatives in areas including labour costs and other operating expenses, capital expenditures reductions, and management of its working capital requirements.

### **3 Summary of significant accounting policies**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates made by management relate to the collectability of accounts receivable and notes receivable, reserves for uncertain tax positions, the initial determination of fair values of assets acquired and liabilities assumed in business combinations and the assessment of potential impairment of goodwill and intangible assets. Actual results could differ from those estimates.

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

# **FS Brands, Inc.**

## **Notes to Consolidated Financial Statements December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

### **Revenue recognition and unearned revenue**

The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Company measures revenue based on consideration specified in the contract of each customer and recognizes revenue as the performance obligations are satisfied by transferring the control of the service or product to a customer.

- **Franchisor operations**

The Company operates several franchise systems. Initial franchise fees are deferred and recognized over the term of the franchise agreement. Royalty revenue is recognized based on a contracted percentage of franchisee revenue, as reported by the franchisees. Revenue from administrative and other support services, as applicable, is recognized as the services are provided.

The Company's franchise systems operate marketing funds on behalf of franchisees. Advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis in the Company's consolidated statements of income and comprehensive income. To the extent that contributions received exceed advertising expenditures, the excess amount is accrued and offset as a deferred liability, whereas any expenditures in excess of contributions are expensed as incurred. As such, advertising fund contributions and the related revenue and expenses may be reported in different period.

On January 1, 2018, the Company adopted the new revenue recognition standard Accounting Standard Codification (ASC) 606, Revenues from Contracts with Customers (ASC 606) by using the full retrospective method. The Company has recast its consolidated financial statements and disclosures from amounts previously reported to comply with ASC 606. See note 4 for further information.

- **Revenue from construction contracts and service operations other than franchisor operations**

Revenue is recognized at the time the service is rendered. Certain services, including but not limited to construction contracts and real estate project management work-in-process, are recognized over time based on percentage of completion, a ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period when the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

### **Cash and cash equivalents**

The Company considers all investments readily convertible into cash and having an initial maturity of three months or less to be cash equivalents. Cash equivalents include money market funds and time deposits, which are carried at cost and approximate fair value.

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

**Restricted cash**

Restricted cash comprises cash restricted for marketing fund use. The Company is in custody of the cash received from franchisees for use in franchisee marketing funds.

On January 1, 2018, the Company adopted updated guidance issued by the Financial Accounting Standards Board (FASB) on restricted cash (Accounting Standards Update (ASU) No. 2016-18). This ASU requires the consolidated statements of cash flows to explain the change during the period in the total of cash and cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The Company's restricted cash balance consists primarily of cash related to our marketing funds. This update has been applied retrospectively.

**Inventories**

Inventories consist of finished products, accessories and components of closet and workspace systems, painting kits, film and supplies held for resale. Inventories are valued at the lower of cost (first in, first out) and net realizable value. Work-in-progress inventory relates to construction contracts in process and is accounted for using the percentage of completion method.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated on a straight-line basis over the lesser of the useful life of the asset or the remaining lease term.

Maintenance and repairs are expensed to operations as incurred, while betterments and additions are capitalized. On sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reflected in income.

**Goodwill and intangible assets**

Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at a fair value on the date they are acquired and are amortized using the straight-line method over their estimated useful lives as follows:

Customer relationships	4 to 20 years
Trademark	15 to 30 years
Franchise agreements	pattern of use

Goodwill is tested for impairment annually, on August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, no further testing is required. When the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount, a goodwill impairment test is performed.

**Impairment of long-lived assets**

The Company reviews the carrying amount of its long-lived assets including, but not limited to, property and equipment and intangible and other assets, if events or changes in circumstances indicate the asset might be impaired. The carrying amount of a long-lived asset group is considered impaired when the undiscounted cash flow from such asset group is estimated to be less than its carrying amount. In that event, a loss is recognized as the amount by which the carrying amount exceeds its fair value. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived asset groups to be disposed of would be determined in a similar manner, except that fair value would be reduced by any costs of disposal.

**Deferred revenue and customer deposits**

Deferred revenue represents payments received in connection with services to be provided in the future and is recognized when the services have been provided. Customer deposits represent payments received as deposits in connection with California Closet products to be installed.

**Leases**

The Company adopted ASU 842, Leases, as of January 1, 2019 using the modified retrospective approach. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification.

The Company has lease agreements with lease and non-lease components and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the balance sheet when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

See note 10 to the consolidated financial statements for additional disclosures about the impact of adoption of ASC 842.

**Income taxes**

Income tax has been provided using the asset and liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse, be recovered or be settled. The effect on deferred income tax assets and

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

liabilities of a change in income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

**Non-controlling interests**

The non-controlling interests are considered to be redeemable securities and accordingly are recorded at the greater of (i) the redemption amount; or (ii) the amount initially recorded as a non-controlling interest at the date of inception of the minority equity position. This amount is recorded in the mezzanine section of the consolidated balance sheet, outside of stockholders' equity. Changes in the non-controlling interests amount are recognized immediately as they occur.

**Fair value measurements**

Fair value measurements are measured using inputs from the three levels of the fair value hierarchy. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – observable market based inputs other than quoted prices in active markets for identical assets or liabilities; and

Level 3 – unobservable inputs.

**Concentrations**

The Company's financial instruments exposed to credit risk include cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Company places its cash, restricted cash and cash equivalents with institutions of high creditworthiness. Management routinely assesses the collectability of its accounts receivable and notes receivable and its credit risk is limited due to the dispersion of the customer base comprising the receivables.

**4 Revenue from contracts with customers**

Franchise fee revenue recognized during the twelve months ended December 31, 2020 that was included in deferred revenue at the beginning of the period was \$3,894,494 (2019 – \$4,284,359). These fees are recognized over the life of the underlying franchise agreement, usually between 5 – 10 years.

External broker costs and employee sales commissions in obtaining new franchisees are capitalized in accordance with the revenue standard and are amortized over the life of the underlying franchise agreement. Costs amortized during the twelve months ended December 31, 2020 were \$1,888,243 (2019 – \$1,669,646). The closing amount of the capitalized costs to obtain contracts on the balance sheet as at December 31, 2020 was \$7,156,920 (2019 – \$6,513,291). There were no impairment losses recognized related to those assets in 2020.

**FS Brands, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

Disaggregated revenue is as follows:

	<b>Twelve months ended December 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Revenue recognized		
Point in time	414,510,451	462,141,491
Over time	4,517,636	5,153,604

The Company disaggregates revenue by point in time and over time.

## **5 Transactions with related parties**

### **Management fees**

The Company has a management agreement with the parent that provides certain administrative and management services to the Company. For the years ended December 31, 2020 and December 31, 2019, the fees for such services totalled \$4,430,219 (2019 – \$4,884,590). These transactions were in the normal course of operations and were measured at the exchange amount.

In July 2019, the Company sold one of its subsidiaries to a related company under common control. The transaction resulted in the Company receiving \$28.8 million in consideration upon the closing date. The book value of net assets sold was \$24.9 million, and as the sale was to a company under common control, the difference between cash consideration and net assets sold of \$3.8 million is considered a capital transaction and was recognized as an adjustment to retained earnings. Intangible assets and goodwill transferred as part of this transaction amount to \$10,582,447 and \$19,883,595, respectively. \$7,232,377 is receivable from FirstService Corporation in respect of this transaction and is included in the notes receivable balance. The transactions did not result in a change in the reporting entity and hence were accounted for retrospectively.

Included in the notes receivable balance are amounts owing from certain non-controlling interest stockholders, which total \$202,062 (2019 – \$197,133).

## **6 Notes receivable**

The Company has notes receivable from franchisees for various franchise fees and royalties. These notes bear interest at rates ranging from nil% to 8%, are unsecured and are repayable in monthly instalments. Also included in notes receivable are amounts owing from certain non-controlling interest stockholders. The total amount due from non-controlling interests is \$202,062 (2019 – \$197,133). The interest rate on these notes is 2.5%.

**FS Brands, Inc.****Notes to Consolidated Financial Statements**  
**December 31, 2020 and December 31, 2019**

(expressed in US dollars)

As at December 31, 2020, annual maturities on the notes receivable are as follows:

	\$
2021	1,067,940
2022	582,522
2023	7,500,726
2024	223,569
2025	80,009
Thereafter	354,165
	<u>9,808,931</u>
Less: Allowance for doubtful accounts	<u>-</u>
	9,808,931
Less: Current portion	<u>1,067,941</u>
	<u>8,740,990</u>

**7 Property and equipment**

<b>2020</b>				
	<b>Depreciation period</b>	<b>Gross carrying amount \$</b>	<b>Accumulated depreciation \$</b>	<b>Net \$</b>
Production equipment	5 to 7 years	27,247,644	17,832,134	9,415,510
Vehicles	5 years	20,287,515	13,083,245	7,204,270
Furniture and fixtures	5 to 7 years	11,685,576	6,150,598	5,534,978
Computers and equipment	3 to 5 years	28,158,527	19,264,448	8,894,079
Computer software	3 to 5 years	5,876,596	5,121,383	755,213
Leasehold improvements	lease term	17,135,511	11,250,850	5,884,661
		<u>110,391,369</u>	<u>72,702,658</u>	<u>37,688,711</u>
<b>2019</b>				
	<b>Depreciation period</b>	<b>Gross carrying amount \$</b>	<b>Accumulated depreciation \$</b>	<b>Net \$</b>
Production equipment	5 to 7 years	24,254,060	14,632,334	9,621,726
Vehicles	5 years	19,352,841	10,517,884	8,834,957
Furniture and fixtures	5 to 7 years	10,736,859	4,759,948	5,976,911
Computers and equipment	3 to 5 years	23,439,282	15,248,463	8,190,819
Computer software	3 to 5 years	5,633,618	4,619,007	1,014,611
Leasehold improvements	lease term	15,931,543	8,711,631	7,219,912
		<u>99,348,203</u>	<u>58,489,267</u>	<u>40,858,936</u>

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2020 and December 31, 2019

(expressed in US dollars)

Depreciation expense totalled \$14,625,798 (2019 – \$12,903,210) for the years ended December 31, 2020 and December 31, 2019.

### 8 Intangible assets

	2020		
	Gross carrying amount \$	Accumulated amortization \$	Net \$
Trademarks	10,774,498	6,617,093	4,157,405
Franchise agreements	40,840,771	25,849,676	14,991,095
Customer relationship	11,316,611	5,601,736	5,714,875
Non-compete and other	633,165	633,165	-
	63,565,045	38,701,670	24,863,375
	2019		
	Gross carrying amount \$	Accumulated amortization \$	Net \$
Trademarks	10,774,498	6,274,709	4,499,789
Franchise agreements	40,840,771	22,874,289	17,966,482
Customer relationship	11,316,611	2,970,068	8,346,543
Non-compete and other	633,165	633,165	-
	63,565,045	32,752,231	30,812,814

Amortization expense totalled \$5,949,439 (2019 – \$5,741,427) for the years ended December 31, 2020 and December 31, 2019.

The following is the estimated annual amortization expense for each of the next five years:

	\$
2021	4,699,924
2022	4,664,924
2023	4,316,897
2024	3,171,594
2025	3,171,594

### 9 Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

might be impaired. Based on the quantitative assessment in 2020, the Company has concluded that goodwill is not impaired.

	\$
<b>Balance as at December 31, 2018</b>	94,488,254
Goodwill acquired during the year	7,375,000
Goodwill disposed during the year	<u>(19,943,002)</u>
<b>Balance as at December 31, 2019</b>	81,920,252
Goodwill adjustment during the year	<u>21,800</u>
<b>Balance as at December 31, 2020</b>	<u>81,942,052</u>

## 10 Leases

The Company has operating leases for corporate offices, copiers and certain equipment. Its leases have remaining lease terms of 1 year to 10 years, some of which may include options to extend the leases for up to 8 years, and some of which may include options to terminate the leases within 1 year. The Company evaluates renewal terms on a lease by lease basis to determine if the renewal is reasonably certain. The amount of operating lease expense recorded in the consolidated statement of earnings was \$9,608,390 (2019 – \$8,883,435).

Other information related to leases was as follows:

**Supplemental cash flows information, twelve months  
ended December 31, 2020**

Cash paid for amounts included in the measurement of operating lease liabilities	\$9,196,604
Right-of-use assets obtained in exchange for operating lease obligation	\$11,664,841
Weighted average remaining operating lease term	5 years
Weighted average discount rate	3.7%

The following represent operating lease commitments:

	\$
2021	9,527,157
2022	8,188,507
2023	6,975,639
2024	5,264,764
2025 and thereafter	<u>10,654,277</u>
	<u>40,610,344</u>

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

**11 Income taxes**

The components of the provision for income taxes are as follows:

	<b>2020</b> \$	<b>2019</b> \$
Current provision		
Federal	7,594,150	8,203,337
State	2,688,564	2,669,371
	<u>10,282,714</u>	<u>10,872,708</u>
Deferred recovery		
Federal	418,280	551,886
State	304,375	(206,269)
	<u>722,655</u>	<u>345,617</u>
	<u>11,005,369</u>	<u>11,218,325</u>

The components of deferred income tax assets and liabilities are as follows:

	<b>2020</b> \$	<b>2019</b> \$
Deferred income tax assets		
Accrued expenses	5,239,498	5,483,419
Bad debt	1,751,910	1,535,932
Future benefit of tax losses	669,370	945,484
	<u>7,660,778</u>	<u>7,964,835</u>
Deferred income tax liabilities		
Purchased goodwill and intangible assets	5,757,251	6,245,441
Property and equipment	7,456,108	6,188,351
Investment in partnership	672,989	672,989
	<u>13,886,348</u>	<u>13,106,781</u>
Net deferred income tax liabilities before valuation allowance	6,225,570	5,141,946
Valuation allowance	603,799	964,770
Net deferred income tax liabilities	<u>6,829,369</u>	<u>6,106,716</u>

**FS Brands, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

The aggregate change in the balance of uncertain tax positions for the year ended December 31, 2020 was as follows:

	\$
Balance – Beginning of year	186,059
Reduction for lapses in applicable statute of limitations	-
Balance – End of year	<u>186,059</u>

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's taxing jurisdiction is the United States of America. With few exceptions, the Company is no longer subject to US federal, state and local income tax examinations by tax authorities for years before 2014.

The Company does not currently expect any material impact on earnings to result from the resolution of matters relating to open taxation years; however, actual settlements may differ from amounts accrued. Currently, it is not reasonably possible to determine whether unrecognized tax benefits will increase or decrease within the next 12 months with respect to settlements of tax audits. The Company has made its current estimates on facts and circumstances known to date and cannot predict subsequent or changed facts and circumstances that could affect its current estimates.

## 12 Notes payable

	2020 \$	2019 \$
Promissory note, unsecured, payable in annual instalments through January 2020, interest at 9%	-	621,345
Promissory note, unsecured, payable in annual instalments through January 2023, interest at 2%	1,292,143	1,748,570
Other debt related to holdback due to seller	-	302,850
Less: Current portion	<u>435,000</u>	<u>1,387,051</u>
	<u>857,143</u>	<u>1,285,714</u>

## 13 Change in non-cash working capital

	2020 \$	2019 \$
Accounts receivable	15,497,623	12,810,043
Inventories	(2,968,130)	5,203,602
Notes receivable	2,643,159	(8,903,337)
Prepaid expenses and other current assets	2,330,333	954,153
Accounts payable	(2,368,956)	(4,122,549)
Accrued liabilities	1,165,297	(13,257,936)
Deferred revenue and customer deposits	9,378,917	1,764,311
Income taxes	(961,831)	(1,135,643)
Other liabilities	<u>457,564</u>	<u>1,288,327</u>
	<u>25,173,976</u>	<u>(5,399,029)</u>

# FS Brands, Inc.

## Notes to Consolidated Financial Statements December 31, 2020 and December 31, 2019

(expressed in US dollars)

### 14 Non-controlling interests

The following table provides a reconciliation of the beginning and ending amounts for non-controlling interests (NCI):

	2020 \$	2019 \$
Balance – Beginning of year	18,418,486	33,904,003
Share of earnings of NCI	1,526,754	2,886,840
Redemption increment of NCI	2,570,391	(2,085,931)
Distributions paid to NCI	(1,619,722)	(1,001,156)
Purchase of NCI	(2,128,811)	(3,445,970)
Sale of NCI	-	737,172
NCI reorganized on business disposal	-	(12,576,472)
Balance – End of year	18,767,098	18,418,486

The Company has stockholders' agreements in place at each of its non-wholly owned subsidiaries. These agreements allow the Company to call the NCI at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net income before extraordinary items, income taxes, interest, depreciation and amortization. The agreements also have redemption features, which allow the owners of the NCI to put their equity into the Company at the same price, subject to certain limitations. The formula price is referred to as the redemption amount and may be settled in cash or with the ultimate parent's shares. The redemption amount as at December 31, 2020 and December 31, 2019 is \$18,767,098 (2019 – \$18,418,486).

### 15 Letters of credit

College Pro Painters (U.S.) Ltd. is required to obtain irrevocable bank letters of credit totalling \$311,649 (2019 – \$800,000). The letters of credit are to remain open for the duration of certain stop-loss insurance policies or until all insurance claims against College Pro Painters (U.S.) Ltd. have been settled.

### 16 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. The following are estimates of the fair values for other financial instruments:

	Carrying amount \$	Fair value \$
Notes receivable	9,808,931	8,645,858
Notes payable	1,292,143	1,254,613
Contingent consideration	1,080,000	1,080,000

Notes receivable include amounts due from franchisees and non-controlling stockholders. Notes payable include amounts due to vendors in connection with business acquisitions. The fair values of these instruments are determined using a valuation model with prevailing interest rates obtained from third parties. The inputs

**FS Brands, Inc.**  
Notes to Consolidated Financial Statements  
**December 31, 2020 and December 31, 2019**

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(expressed in US dollars)

are unobservable and thus classified as Level 3 and relate to future cash flows and discount rates, which requires the Company to develop its own assumptions.

**17 Defined contribution pension plan**

The Company contributed \$2,565,661 (2019 – \$2,025,546) to its 401(k) plan during the year, which has been recorded as an expense in each of the respective years.

**18 Impact of recently issued accounting standards**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which amends the scope and transition requirements of ASU 2016-13. The standard requires a financial asset (or a group of financial assets) to be measured at an amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard became effective for the Company beginning January 1, 2020 and will require a cumulative effect adjustment to accumulated retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified retrospective approach). The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Adjustment to accumulated retained earnings which reflects the adoption of ASU 2016-13 is as follows:

	\$
Opening retained earnings – January 2020	127,817,170
Adjustment due to ASU 2016-13	<u>(51,705)</u>
Adjusted retained earnings – January 2020	<u>127,765,465</u>

In December 2019, FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU affects a number of aspects of tax accounting including simplifying the accounting for income taxes by removing a number of reporting exceptions. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

**EXHIBIT B-2  
TO THE PAUL DAVIS RESTORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**GUARANTEE OF PERFORMANCE**

## GUARANTEE OF PERFORMANCE

For value received, FS Brands, Inc., a Delaware corporation (the "Guarantor"), located at 2621 Van Buren Avenue, Suite 550A, Audubon, PA 19403, absolutely and unconditionally guarantees to assume the duties and obligations of Paul Davis Restoration, Inc., located at 7251 Salisbury Road, Suite 6, Jacksonville, Florida 32256 (the "Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2022 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at Audubon, Pennsylvania on the \_\_\_\_ day of \_\_\_\_\_, 2022.

Guarantor:

FS Brands, Inc.

By: 

Charles E. Chase, President

**EXHIBIT C  
TO THE PAUL DAVIS RESTORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**FRANCHISE AGREEMENT**

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISE AGREEMENT**

**2022**

\_\_\_\_\_  
FRANCHISEE

\_\_\_\_\_  
DATE OF AGREEMENT

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## **EXHIBITS**

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EXHIBIT C: ELECTRONIC FUNDS WITHDRAWAL AUTHORIZATION  
EXHIBIT D: CONFIDENTIALITY AND RESTRICTIVE COVENANT AGREEMENT  
EXHIBIT E: TELEPHONE NUMBER AND INTERNET AGREEMENT  
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**PAUL DAVIS RESTORATION, INC.**  
**7251 Salisbury Road, Suite 6, Jacksonville, FL 32256**

**PAUL DAVIS RESTORATION  
FRANCHISE AGREEMENT**

**THIS FRANCHISE AGREEMENT** (this "Agreement"), is made effective as of \_\_\_\_\_, 2022, by and among PAUL DAVIS RESTORATION, INC., a Florida corporation ("PDRI"); and the following individual(s): \_\_\_\_\_ (singly, or collectively if more than one, the "Principal Owner"); and \_\_\_\_\_ d.b.a. Paul Davis Restoration of \_\_\_\_\_ (the "Franchisee"). Because the obligations of Franchisee and Principal Owner are joint and several under this Agreement, the term "Franchisee" throughout this Agreement shall refer to both Franchisee and Principal Owner, except in those circumstances where the term Principal Owner is specifically used.

**WITNESSETH:**

A. PDRI is the owner of the Paul Davis Restoration® ("PDR") service mark and as the result of the expenditure of time, effort and money in research and development has acquired experience, knowledge and goodwill with respect to insurance restoration construction and reconstruction, and emergency services, including drying, cleaning, decontamination, repair, board-up, demolition, loss mitigation, mold remediation and other emergency services, of residential and commercial buildings, structures, and contents ("PDR's Business");

B. PDRI has developed certain systems, methods, procedures, know-how, computer software programs and other associated trade secrets (collectively the "Franchise System"), as described in the Paul Davis Operations Manual, as now compiled and as amended from time to time (the "Operations Manual"), for the operation of a business engaging in PDR's Business;

C. PDRI is also the owner of the Paul Davis Emergency Services® ("PDES") service mark and, as the result of the expenditure of time, effort and money in research and development, has acquired experience, knowledge and goodwill with respect to emergency services, including drying, cleaning, decontamination, repair, board-up, demolition, loss mitigation, mold remediation and other emergency services, of residential and commercial buildings, structures, and contents ("PDES' Business");

D. Franchisee recognizes that the Franchise System is unique, novel and valuable and Franchisee desires to obtain the commercial benefits of the use of the Paul Davis Restoration name and the Franchise System and the knowledge, experience and reputation of PDRI.

**NOW, THEREFORE**, in consideration of the mutual covenants, promises, conditions and agreements hereinafter set forth, PDRI and Franchisee agree as follows:

## **ARTICLE 1: FRANCHISE SYSTEM**

1.1 Grant of Franchise. PDRI hereby grants to Franchisee a non-exclusive license to use the Franchise System to operate a Paul Davis Restoration® (“PDR”) franchise (the “Franchise Business”) under the terms and conditions set forth in this Agreement.

1.2 Operations Manual. During the term of this Agreement, PDRI grants to Franchisee a non-exclusive license to use the Operations Manual, the provisions of which are hereby incorporated by reference into this Agreement. Franchisee acknowledges that the Operations Manual remains the property of PDRI and Franchisee shall be bound by the terms of the Operations Manual and shall return the Operations Manual and any copies thereof to PDRI upon termination of this Agreement. Franchisee further acknowledges that PDRI may amend the Operations Manual in accordance with the procedures set forth in the Operations Manual and Franchisee shall be bound by any such amendment. In the event of any conflict between the terms of this Agreement and the terms of the Operations Manual the terms of this Agreement shall govern.

1.3 Tradename and Logos. PDRI grants to Franchisee, for the term of this Agreement, a non-exclusive license to use the Paul Davis Restoration® name and logo in the operation of the Franchise System in accordance with this Agreement and the Operations Manual. Franchisee shall operate exclusively under the Paul Davis® and Paul Davis Restoration® name and logo and shall not use or display any other tradename or service mark without the prior written consent of PDRI. All names and logos owned by PDRI and/or its affiliates and licensed to Franchisee are hereafter referred to as the “Marks.” PDRI reserves the right, in its sole discretion, to modify, replace, substitute or terminate any of the Marks.

Franchisee shall not use either the Marks or any variation thereof as part of its corporate, firm or business name or for any other purposes except in accordance with this Agreement or as may otherwise be specifically authorized by PDRI in writing, nor shall Franchisee hold out or otherwise employ the Marks to perform any activity, or to incur any obligation or indebtedness in such manner as might make PDRI liable therefore. Franchisee shall not register or attempt to register the Marks in its name or the name of any person, firm, corporation or entity, and shall not take any action which might invalidate the Marks, impair any rights of PDRI in and to such Marks or create any rights adverse to those of PDRI. Moreover, Franchisee shall use the Marks correctly spelled and/or depicted and not as a verb or in the plural or in any other manner which might endanger the validity of the Marks and/or, if registered, their registration. Franchisee shall use the Marks only in the style as may be registered, or if not registered, as prescribed by and in accordance with PDRI brand standards as set forth in the Operations Manual and elsewhere in writing by PDRI (“Brand Standards”).

In order to preserve the validity and integrity of the Marks licensed herein and to assure that Franchisee is properly employing same in the operation of the Franchise Business, PDRI and its agents shall at all reasonable times have the right to inspect Franchisee's premises and other sites of Franchisee's operation and make periodic evaluations of the services provided and the goods sold and used therein. Franchisee shall

cooperate with PDRI and its agents in such inspections and render such assistance as PDRI may reasonably request.

1.4 Regional and National Programs. Franchisee acknowledges that PDRI has the sole authority to enter into regional or national account relationships and/or contracts, for and on behalf of the Franchise System, with insurance companies, third party administrators, commercial clients and property managers ("Program Accounts"), under which PDRI may assign jobs to franchisees. The signing of a Regional or National account by franchisee, without the express written consent of PDRI, will be considered a material breach of this Franchise Agreement. Franchisee must adhere to the Program requirements of the regional or national account including service levels, compliance and other contractual requirements. Regional and National Programs that are also Optional Programs with additional requirements, terms, conditions, training and fees, under section 1.5 below, must be opted in by Franchisee executing an Addendum indicating the desire to participate in such Program. Franchisee agrees, as part of participation in any Program, to adhere to all Program requirements including those Programs that require centralized payment through PDRI. PDRI agrees to collect and disburse all program Funds to which franchisee is entitled, within 15 business days of collection.

1.5 Optional Programs. PDRI and/or affiliates of PDRI may from time to time establish and offer to Franchisee additional customer lead source programs, that require specific account management services by PDRI and/or its affiliates including for carriers, TPAs, homeowners and commercial clients related to PDRI's Business. "Optional Programs" are defined as directly managed programs by PDRI (such as programs formally managed by Third Party Administrators that charged fees to franchisees) or changes in current programs requiring additional managed services by PDRI to service or maintain the account, such as program support in providing compliance, customer service, or a dedicated team required at PDRI and/or through a third party or onsite with a carrier. Franchisee may elect to participate in such Optional Programs subject to the requirements, terms, and conditions established from time to time by PDRI for such Optional Programs, which may include additional training requirements and additional fees. Franchisees electing to opt into an Optional Program offered by PDRI shall agree to the terms and conditions of such Optional Program by executing a written Attestation or Addendum to the Franchise Agreement. Optional Program Fees are not a royalty, but are administrative fees payable to PDRI in consideration for PDRI's expenses and support for each applicable Optional Program. PDRI reserves the right to change the fee charged on any Optional Program from time to time after providing Franchisee with written notice of any Optional Program fee change. All Optional Programs are developed and offered at the sole discretion of PDRI, in collaboration with the NEC, and may be terminated by PDRI at any time upon written notice to Franchisee. Any fees owed by Franchisee for participation in any Optional Program that are past due may result in PDRI terminating Franchisee's participation in the Optional Program until payment of all fees is made.

1.6 Co-operative Marketing Program. PDRI has established a co-operative marketing program for franchisees in certain Designated Marketing Areas, also referred to as a "DMA". All franchisees located in a DMA for which a co-operative marketing program has been established must agree to participate in such program and execute an addendum to this Agreement, in the form prescribed by PDRI, that governs Franchisee's participation in the program. In the event of a resale of a Franchise Business that participates in a co-operative marketing program, the purchaser of the Franchise Business will also be subject

to the terms of the addendum described in the preceding sentence.

1.7 Exclusions and Reservations. Franchisee expressly understands and agrees that Franchisor and Franchisor's affiliates will have the right, in Franchisor's sole discretion, to: (i) establish and operate, and license third parties the right to establish and operate, other Franchised Businesses using the Proprietary Marks and System at any location(s) outside of the Protected Territory (as defined in Section 4.1 of this Agreement); (ii) open and operate, or license third parties the right to open or operate, businesses that offer products and services similar to the Franchised Business under marks other than the Proprietary Marks at any location; (iii) merge with, acquire, or be acquired by, including through purchase or sale of substantially all assets, any other person or entity, including any competitor of Franchisor or Franchisee, and continue to conduct and franchise others the right to conduct in any location any business engaged in by the merging, acquiring, acquired person or entity, including any business directly competitive with the Franchised Business and to identify such outlets or businesses as being related to or an affiliate of PDR or PDRI; and (v) use the Proprietary Marks and System, and license others to use the Proprietary Marks and System, to engage in any other activities not expressly prohibited under this Agreement within or outside the Protected Territory.

## **ARTICLE 2: FRANCHISE FEE**

2.1 Franchise Fee. As consideration for the granting of the license to use the Marks and the Franchise System, Franchisee shall pay to PDRI a fee (the "Franchise Fee") in the amount and manner provided in Item A of the Schedule of Additional Terms and Conditions, set forth on Exhibit B, attached hereto and incorporated herein. Franchisee agrees that the Franchise Fee is non-refundable after payment thereof except at PDRI's election pursuant to Section 8.6 of this Agreement.

## **ARTICLE 3: ROYALTY AND OTHER FEES**

3.1 Royalty Fee. Franchisee shall pay to PDRI a monthly royalty fee (the "Royalty Fee") equal to Four Percent (4%) (the "Royalty Rate") times the amount of monthly Gross Sales invoiced. "Gross Sales" includes the total amount of all closed sales or other revenue for labor, material, and services performed or rendered (a) by Franchisee or (b) by third party vendors and subcontractors who provide services or materials for Franchisee's clients as a part of Franchisee's services and pay Franchisee a fee of any kind. Invoiced Gross Sales does not include the amount of any applicable sales tax imposed by any federal, state, municipal or other governmental authority if such taxes are stated separately when the customer is charged and Franchisee pays such amounts as and when due to the appropriate taxing authority. Invoiced Gross Sales includes all items included on an estimate or work authorization including items paid for directly by the client or insurer. In the case of jobs involving multiple franchisees, each franchise will be responsible to report Gross Sales to the extent the franchisee bills, or is paid by, the ultimate customer or insurer. Sales are deemed to be "closed" and reported for royalty purposes at the time when an invoice is generated on the work. Franchisee shall report Gross Sales using such forms or in such format as PDRI may specify from time to time. PDRI may at any time modify the required format and content of the sales report. Royalty shall not be assessed on fees charged for participation of an Optional Program under section 1.4 of this Agreement and all Royalty Fees are non-refundable.

3.2 Minimum Royalty. The term “Minimum Royalty” shall mean an annual amount equal to the Royalty Rate times the Minimum Sales Amount times the population of the Franchise Territory. The term “Minimum Sales Amount” shall mean: (a) \$0.00 for the partial year following the effective date of this Agreement; (b) \$1.00 for the first full calendar year; (c) \$2.00 for the second full calendar year; (d) \$3.00 for the third full calendar year; (e) \$3.50 for the fourth full calendar year; (f) \$4.00 for the fifth full; (g) \$4.50 for the sixth full calendar year; (h) \$5.00 seventh full calendar year; (i) \$5.50 eighth full calendar year; and (j) \$6.00 for the ninth full calendar year and years thereafter, but if this Agreement is a renewal of a prior franchise agreement then the Minimum Sales Amount shall be the amount set forth beginning on the Schedule of Additional Terms and Conditions (attached hereto as Exhibit B) and escalated to \$6.00 maximum. If the Minimum Royalty amount exceeds the amount of the Royalty Fee for the previous twelve (12) months, then Franchisee shall pay the amount of such excess to PDRI. The annual Minimum Royalty amount shall be prorated for any partial years resulting from the termination, renewal or non-renewal, or transfer of the franchise. PDRI shall notify Franchisee in writing of any amounts due pursuant to this section and such amounts shall be due and payable within thirty (30) days of such notice. If Franchisee owes Minimum Royalty for any year, then in the following year, PDRI may assess the pro rata amount of Minimum Royalty on a quarterly basis with credit allowed for any overpayment on a full year basis. Beginning on the tenth (10<sup>th</sup>) anniversary of the effective date of this Agreement, the Minimum Sales Amount shall be increased annually to reflect changes in the Consumer Price Index since the date of this Agreement. PDRI and Franchisee agree that the population for calculating the Minimum Royalty will be the latest population as determined from generally accepted demographic sources, such as U.S. Department of Commerce - Bureau of Census, Rand McNally, or Donnelley Marketing Information Services, adjusted by the applicable discount, if any. The current population is set forth on the Schedule of Additional Terms and Conditions. If Franchise Business is acquired from a prior franchisee or upon renewal, then, for purposes of this Section 3.2, the initial Minimum Sales Amount will be determined, at the sole discretion of PDRI, based on current sales divided by the current population to determine the market penetration, with the Minimum Sales Amount thereafter increasing to a maximum of \$6.00 as determined by PDRI. If the Franchise is at the maximum Minimum Sales Amount it shall also be subject to a Consumer Price Index adjustment upon renewal of this Agreement.

3.3 Computer Software Fee. Franchisee shall pay to PDRI, for providing support of the Common Software (defined in Section 9.1), a monthly fee in the amount determined from time to time by the General Council (defined in Section 10). This fee does not cover Franchisee's costs of local support or training, if required, the cost of replacing Franchisee's computer hardware if required during the term of this Agreement, or support for other software obtained from third party suppliers.

3.4 Intentionally Omitted.

3.5 Quality Review Fee. PDRI shall have the right to assess fees and costs for two (2) annual quality control or sales audit inspections of Franchisee. Franchisee agrees that, so long as PDRI waives the right to impose the two annual quality control or sales audit inspections together with their accompanying costs, Franchisee shall pay a monthly fee to PDRI of \$50, or such greater amount as may be established by the General Council. In consideration of payment of this fee, PDRI representatives shall provide certain consulting and technical assistance as described in Subsection 6.7(d) of this Agreement.

3.6 Intentionally omitted.

3.7 Guarantee and Indemnity Fund Fees.

(a) Definitions. The Job Completion and Guarantee Fund (the "Guarantee Fund") and the Indemnity and Insurance Reimbursement Fund (the "Indemnity Fund") are cooperative programs under Booklet One of the Operations Manual. The Guarantee Fund and the Indemnity Fund are administered by Completion Services, Inc., ("CSI") a corporation owned by PDR franchisees and managed by its Board of Directors (the "CSI Board").

(b) Franchisee Contributions.

(1) Guarantee Fund. Franchisee shall pay a monthly Guarantee Fund fee equal to one-half percent (1/2%) of invoiced Gross Sales, up to an account balance of: (a) \$20,000 for a population of 0-500,000; plus (b) \$2,000 for each additional 100,000 population or portion thereof in excess of 500,000, or such greater amount as may be established by the CSI Board. Franchisee's Guarantee Fund contributions shall be held by CSI for the account of Franchisee in accordance with the Operations Manual. If this franchise was acquired from a prior franchisee, then the amount of the monthly Guarantee Fund fee shall equal to one percent (1%) of Gross Sales.

(2) Indemnity Fund. Franchisee shall pay a monthly Indemnity Fund fee based on the following scale for annual cumulative invoiced Gross Sales:

- a. \$0 to \$2,000,000 = 0.10%
- b. \$2,000,000.01 to \$4,000,000 = 0.08%
- c. \$4,000,000.01 to \$8,000,000 = 0.06%
- d. \$8,000,000.01 or greater = 0.04%.

(3) Monthly Payments. The Guarantee Fund fee and the Indemnity Fund fee shall be paid as directed by CSI at the same time Royalty Fees are due to PDRI.

(c) PDRI Contribution. PDRI shall contribute \$1,000 to Franchisee's account in the Guarantee Fund within sixty (60) days of the signing of this Agreement or ten (10) days after Franchisee commences operations, whichever is later. The balance of Franchisee's Guarantee Fund account shall be contributed by Franchisee in accordance with Section 3.7(b) (1). This subsection (c) shall not apply if this franchise was acquired from a prior franchisee or is a renewal of an existing franchise agreement.

(d) Payments Following Termination. Following termination of this Agreement for any reason, the balance in Franchisee's Guarantee Fund account shall be paid to Franchisee two years following such termination in accordance with the procedures contained in the Operations Manual, provided however, that Franchisee agrees and hereby instructs CSI that CSI shall first deduct and remit to PDRI the sum of \$1,000 (for PDRI's one-time contribution) plus the amount of any sums due to PDRI under this Agreement or any other instrument.

3.8 Fee Adjustments for Underpayment. Franchisee agrees to pay to PDRI, within ten (10) days after receipt of written notice, any amount due to PDRI as determined by either (a) the financial statements or reports prepared by Franchisee's certified public accountant as required by this Agreement or (b) the audit inspection performed by PDRI's authorized agent in accordance with Section 6.7(b). If such an examination discloses any underpayment of the amounts required to be paid to PDRI, then Franchisee shall pay, in addition to the amount owed, interest on the unpaid amount as provided in Section 3.11. In addition, if such an examination discloses an underpayment greater than two percent (2%), Franchisee shall be subject to other actions allowed to PDRI under the terms of this Agreement, including, but not limited to, termination for breach of this Agreement.

3.9 Changes in Fees. During the term of this Agreement, other than as set forth herein, PDRI agrees not to change the fees in this Article 3 unless the change or addition has been submitted to and approved by the General Council in accordance with the procedures for modifying the Operations Manual as set forth therein; provided, however, that the Royalty Fee shall not be changed by the General Council. PDRI reserves the right to change fees prospectively in any new form of Franchise Agreement, and Franchisee acknowledges that it will be bound by the terms of PDRI's then-current form of Franchise Agreement in the event Franchisee chooses to renew for an additional term.

3.10 Due Date of Royalty and Other Monthly Fees. Franchisee agrees to pay Royalty Fees for the prior month's invoiced Gross Sales and all other monthly fees payable to PDRI by the twenty-fifth (25th) day of each month. For start-up franchises (not acquired from existing franchisees) all monthly fees other than the Royalty Fee shall commence in the second full month following the completion of new owner school, if applicable. The payment of fees must be via automatic direct electronic withdrawals from Franchisee's bank account and Franchisee agrees to cooperate with PDRI in such procedure and to execute any and all authorizations required for such withdrawals, though PDRI reserves the right to change the manner of payment at any time. Franchisee must also provide PDRI with necessary credit card information as a back-up in the event that the electronic funds transfer ("EFT") fails or is denied. Franchisee hereby authorizes PDRI to charge this credit card in the event of an EFT denial or failure. A form of EFT authorization is attached to this Agreement as Exhibit C. Franchisee also authorizes PDRI to collect, retain, and apply program payments due the Franchisee to past due balances owed to PDRI, the SMP and for CSI.

3.11 Late Payment. Franchisee agrees that any amounts due to PDRI and not received by PDRI on or before their due date shall immediately begin to accrue interest as of the due date at the maximum rate allowed by law or one and one-half percent (1½%) monthly, whichever is less, without waiver of any other rights of PDRI.

3.12 Additional Penalty for Failure to Timely Pay Fees. Franchisee hereby acknowledges that fees and royalties set forth herein are used to fund programs established under this Agreement and the Operations Manual. In addition to any other rights of PDRI hereunder, PDRI has the right to withhold or terminate access to all services, including the use of the Common Software, or to apply program work payments to past due balances, in the event of Franchisee's failure to pay promptly all sums due PDRI. PDRI, in its sole discretion, may reinstate Franchisee when all sums due are paid.

3.13 Strategic Marketing Plan. The Strategic Marketing Plan ("SMP") is a cooperative program established by the General Council, which requires financial contributions from each Franchisee. The current SMP fee established by the General Council is a monthly payment of: (a) three quarters of one percent (0.75%) of invoiced Gross Sales up to 5,000,000 in annual Sales; and (b) one half of one percent (0.50%) for invoiced sales beginning at \$5,000,001 and above up to the 2022 SMP sales cap of \$12,078,825, as described in Booklet 1 of the Operations Manual. The maximum amount per franchise and/or common majority owned Franchised businesses in contiguous territories shall be \$72,894 until such time as the Network increases the cap or otherwise changes the funding of the SMP. Such calculation may be subject to change based on a 2/3rds vote of the General Council authorizing such change.

3.14 Conference Registration Fee. PDRI at its option may from time to time hold franchisee conferences. Franchisee agrees to pay, within 30 days of billing, a conference registration fee determined for each conference, but not to exceed \$500.

3.15 Call Center Fee. PDRI, at its option, may maintain a centralized call center for the purpose of answering and dispatching leads and processing in-coming customer service related telephone calls, for action by the Franchisee. PDRI may charge Franchisee a per lead/call service charge, provided that such charge shall not exceed the actual cost per lead/call plus an administrative charge of up to 20%. Call Center Fees are payable at the time and in the manner prescribed by PDRI.

3.16 Program Account Review Fee. PDRI may from time to time establish referral programs with insurance companies which require estimate and invoicing standards (a "Program Account"). PDRI may, at its option, undertake to review Program Account job estimates and invoices for program compliance and may charge Franchisee a Program Account Fee of up to 1% of the amount of the job and/or as required by the Optional Program.

3.17 Dishonored Check and EFT Denial Fee. Franchisee shall pay a fee of \$100 to PDRI within thirty days for any dishonored checks and denied electronic funds withdrawals.

3.18 Right of Offset. Without limiting or waiving any other rights that PDRI has under this Agreement or applicable law, PDRI has and hereby reserves the right to set off against and withhold from any amounts due or owing to Franchisee, including program payments PDRI receives for and on behalf of Franchisee, any and all past due fees or other amounts owed to PDRI from Franchisee.

## **ARTICLE 4: TERRITORY**

4.1 Territory Defined. The territory for which this Franchise is granted (the "Franchise Territory") shall be the geographic area described on Exhibit A, attached hereto and incorporated herein. Franchisee agrees to locate the franchise office within the Franchise Territory. Franchisee shall not locate any additional offices outside the Franchise Territory without the prior written permission of PDRI and Franchisee acknowledges that such permission shall not entitle Franchisee to any franchise rights in such other locations. The Franchise Territory is described on Exhibit A using zip code boundaries. In the event these boundaries are modified by applicable authority, PDRI shall re-describe the Franchise Territory using such modified boundaries and maintaining as closely as possible the original geographic size and shape of the Franchise Territory but giving due consideration to any adjoining franchise territories.

4.2 Population. The parties acknowledge that the Franchise Territory currently has a population as set forth in Exhibit B on the Schedule of Additional Terms and Conditions.

4.3 Right to Reassign Certain Work. Franchisee agrees that if Franchisee does not participate in Regional, National or Optional Program Account work, refuses Regional, National or Optional Program Account work, or does not qualify for any such Regional, National or Optional Program Account, then PDRI may re-assign such work to another Franchisee who qualifies for such work, regardless of whether this work is performed in the Franchise Territory.

4.4 Limitation on Franchise Territory. PDRI will not, during the term of this Agreement, open, or authorize another franchisee to open, an office within the Franchise Territory.

## **ARTICLE 5: TERM AND RENEWAL OF FRANCHISE**

5.1 Term. This Agreement and the rights granted to Franchisee hereunder shall be for a term of five (5) years.

5.2 Renewal. Franchisee may renew this Agreement for successive five (5) year renewal terms, provided that the following conditions are met:

(a) Franchisee gives written notice of intent to renew or not renew at least ninety (90) days, but not more than one hundred eighty (180) days, prior to the expiration date;

(b) Franchisee has paid all amounts due and payable under this Agreement, including, without limitation, any Minimum Royalty due;

(c) Franchisee has reported Gross Sales of at least the greater of (i) sales above the national annual median sales for PDR offices in the Network or (ii) \$6.00 times the net population of the Franchise Territory for each of the immediately preceding two calendar years. If this is a renewal of an existing Franchise Agreement without this requirement, and Franchisee does not meet these requirements, Franchisee may meet this requirement by reducing the territory population, as approved by PDRI, to align sales to the size of the

territory. Such reduction in territory may not be used to reduce the minimum royalty charges already incurred;

(d) Franchisee has remained throughout the term substantially in compliance with the terms of the Agreement and is in compliance as of the date of renewal. Three notices of default in any twelve (12) month period shall be considered evidence of non-compliance;

(e) Franchisee complies with PDRI Brand Standards, replaces any equipment and conforms to software requirements (including any computer equipment) used in operating the PDRI franchise so as to comply with the then-current requirements for new franchisees;

(f) Franchisee executes a new franchise agreement and any other documents then customarily used by PDRI in granting new franchises. The terms and conditions of the new franchise agreement may differ materially from the terms of this Agreement; provided, however, that the Franchise Fee shall be waived; and

(g) Franchisee pays a renewal fee equal to \$5,000 upon execution of the renewal franchise agreement.

## **ARTICLE 6: OPERATIONAL OBLIGATIONS**

6.1 Commencement of Operations. Franchisee agrees to commence operations within six (6) weeks after completion of new owner school as set forth in Article 8. For purposes of this Agreement, "commence operations" shall mean the date when Franchisee has completed all training requirements, has all required insurance and required licenses and certifications in force and first offers services to the public by, at a minimum, contacting insurance agents, adjusters or property owners or writing estimates.

6.2 Operating Capital. Franchisee shall have an initial operating capital of not less than Four Hundred Thousand Dollars (\$400,000). After the initial year of operation, or if this franchise was acquired from a prior franchisee, Franchisee shall maintain working capital, including established and unused lines of credit, equal to at least the greater of ten percent (10%) of Franchisee's prior year's Gross Sales or Four Hundred Thousand Dollars (\$400,000).

6.3 Operation under Corporate Structure. Franchisee shall be, and Principal Owner hereby represents and warrants that Franchisee is, a corporation (the term corporation shall be deemed to include a limited liability company) formed in accordance with applicable law and duly authorized to do business in the state in which the Franchise Territory is located. Franchisee must complete the Legal Entity Information Sheet attached hereto as Exhibit F and must provide PDRI with the corporation's articles of incorporation or articles of organization, as applicable. In the case where Franchisee is not a presently existing corporation, Principal Owner shall form such corporation within thirty days of the effective date of this Agreement and shall cause such corporate to ratify this Agreement and otherwise assume all of the obligations of Franchisee under this Agreement. The corporate name of the Franchisee shall be as set forth in the preamble of this Agreement, or other such name as PDRI may approve in writing, but in no event shall the corporate name include "Paul Davis," "PD," or any of the Marks of PDRI. All shares of stock (or other

ownership interests) of Franchisee shall be held solely by such Principal Owners as indicated by the percentages in the corporate documents and as set forth on the signature page of this Agreement. All Principal Owners shall be required to sign this Franchise Agreement and be bound by its terms. Any transfer of shares shall be subject to the provisions of Article 20 of this Agreement and all stock certificates shall include the legend: "The transfer of this stock is subject to the terms, conditions, and restrictions of a Franchise Agreement with Paul Davis Restoration, Inc." The Franchise Business shall be operated under Franchisee's corporate form and under the full fictitious name set forth in the preamble to this Agreement or such other fictitious name as PDRI may approve in writing. Franchisee shall register or file such fictitious name as required by local law. Violation of this section will be considered a breach of this Agreement and may be subject to termination.

6.4 Services Offered and Special Requirements. During the term of this Agreement, Franchisee agrees to offer to customers within the Franchise Territory insurance restoration construction, loss mitigation, emergency services, drying, cleaning services and catastrophe response as appropriate to service Paul Davis clients and customers. For losses in excess of \$500,000 (hereinafter "Complex Loss"), Franchisee agrees to adhere to additional PDRI requirements and be PDRI qualified before accepting such losses including, but not limited to, completing PDRI training and certification, and by meeting all other requirements under this Agreement. At PDRI's request, Franchisee must provide evidence of bondability for any loss over \$1,000,000 prior to contracting for such loss. PDRI in its sole discretion may require that Franchisee obtain a bond on a Complex Loss before proceeding with the work. In the event that Franchisee contracts to perform a Complex Loss and cannot obtain a bond, PDRI reserves the right to obtain a bond for the project at Franchisee's expense. Claims paid out against a PDRI bond will be the responsibility of the Franchisee. Franchisee can comply with this section by subcontracting such loss to a Franchisee that is bondable. Franchisee must comply with all licensing and other requirements as set forth in Section 6.8 herein. Franchisee shall not engage in any other business which is not directly related to this Agreement.

6.5 Compliance with Operations Manual. Franchisee agrees to carry on, conduct and operate the Franchise Business on a full time basis, in accordance with good business practice and in accordance with the standards and policies set forth in the Operations Manual. Franchisee shall maintain such records and furnish such reports to PDRI as are set forth in the Operations Manual and shall acquire, retain and own, during the term of this Agreement, all assets determined by PDRI to be reasonably necessary for the operation of the Franchise Business and to conduct no business other than the Franchise Business from the Franchise office.

6.6 Name Change on Termination. Upon termination or nonrenewal of this Agreement, Franchisee shall immediately cease to use, and shall take such steps as are necessary to notify the public and to withdraw from any public records, any and all use of the Marks, tradenames, logos, or corporate name (or portions thereof) of PDRI. Franchisee hereby irrevocably appoints PDRI as Franchisee's attorney-in-fact to execute in Franchisee's name and on Franchisee's behalf all documents necessary to comply with this Section and to otherwise discontinue Franchisee's use of PDRI's Marks, tradenames, logos or corporate name (or portions thereof). Furthermore, Franchisee expressly acknowledges that PDRI shall be entitled to immediate injunctive relief in order to enforce the terms of this Section.

#### 6.7 Reports; Inspections; Records.

(a) Franchisee shall provide to PDRI on or before the fifth calendar day of each month a monthly statement of Gross Sales for the prior month, on the Gross Sales Report form and in the format designated by PDRI. Franchisee shall also submit job specific information in the form, format and frequency designated by PDRI. Franchisee shall submit quarterly and annual financial statement reports prepared in accordance with generally accepted accounting principles and in a format specified by PDRI. Quarterly reports shall be provided to PDRI within thirty (30) days following the end of the quarter and are not required to be prepared by a certified public accountant. Annual financial reports shall be provided to PDRI within ninety (90) days following the end of the fiscal year and are required to be compiled, but not audited, by a certified public accountant. Franchisee shall submit copies of all federal and state tax returns filed by Franchisee, and any job data or metrics specified by PDRI, upon PDRI's request.

(b) Franchisee shall maintain adequate books and records for its operations and such records shall be stored at Franchisee's principal place of business. Franchisee agrees to permit PDRI, through its authorized representatives and agents, to inspect Franchisee's records, premises and methods of operation from time to time during regular business hours in order to determine that Franchisee has complied with the sales reporting and other provisions of this Agreement. These records shall include but not be limited to: job files; bank statements; check registers; canceled checks; federal and state tax returns of Franchisee and Principal Owners; financial statements; general ledgers; computer generated reports; and disbursement records including subcontractor files. Franchisee also agrees to provide PDRI with authorization to request a business credit report for Franchisee and agrees to fully cooperate with PDRI in connection with any of the activities described in this Section.

(c) Franchisee agrees to pay for all expenses incurred in connection with such inspections, including air fare, transportation, meals, motels, miscellaneous expenses, and an hourly fee based on a prorated percentage of the inspector's salary or the independent auditor's actual fee. Franchisee shall not, however, be obligated to pay expenses incurred in connection with more than two (2) inspections during any one year period. Inspections shall be performed by the designated inspector of PDRI.

(d) In consideration of payment of the fee set forth in Section 3.5, and until PDRI notifies Franchisee otherwise, Franchisee shall not be obligated to pay the inspection fees set forth in Subsection 6.7(c) for inspections described in Subsection 6.7(b) above. PDRI's representative (currently the assigned Regional Business Consultant) shall provide such consulting and technical assistance to the Franchisee as PDRI deems appropriate and reasonable. PDRI's representative shall have the right to review all books and records of Franchisee.

(e) Franchisee agrees to allow PDRI or its designated representative to copy records and remove such copies from Franchisee's premises and to copy any electronic data via electronic or on-line access. Franchisee shall cooperate in PDRI's inspection and copying, including directing PDRI's designated representative to the records, responding fully to all inquiries with respect the records, and allowing reasonable use of photocopiers and any equipment necessary to read or copy information on magnetic or similar media.

6.8 Compliance with Law. "Law" means the collective body of state and federal constitutions, statutes, regulations, ordinances, codes, rules, official opinions, rulings, guidelines, orders, case precedents, and other expressions or prescriptions of civil authorities regulating conduct, property, and rights within or affecting their jurisdictions. Within the Law, Franchisee shall strictly follow and comply with the procedures, methods, service levels and standards in this Agreement, Program and/or Optional Program requirements and the Operations Manual. If any of these documents conflict with the Law, Franchisee shall instruct its employees and agents in writing on how to comply with the Law, attach such instructions to its copies of the applicable document, and send a copy of the special instructions to PDRI. Any violation of Law by Franchisee is a breach of this Agreement. Franchisee acknowledges that PDRI will not, and properly could not, render legal, accounting, or tax advice to Franchisee and that it shall be Franchisee's obligation to retain independent counsel as needed in those areas. Franchisee shall comply with all Law regulating general contracting, including data privacy laws and any licensing requirements. Upon PDRI's written request, Franchisee shall provide PDRI with written documentation and evidence of Franchisee's compliance with federal, state and local laws, permits, certifications, insurance requirements, background checks, and/or any other information requested by PDRI, and in a form or manner required by PDRI. Failure to submit evidence of compliance in accordance with this Section will be considered a material breach of this Agreement and may result in termination.

6.9 Pricing Recommendations. From time to time, PDRI may advise Franchisee of suggested prices for services offered. PDRI and Franchisee expressly agree that any such suggested prices are a recommendation only and is not binding or mandatory.

6.10 Quality Surveys. Franchisee shall submit to PDRI, or its designee, job information in a format specified by PDRI for the purposes of conducting customer satisfaction surveys. PDRI may reveal the results of such surveys to insurance company representatives and use such results in its advertising.

6.11 Brand Identity Program. Franchisee agrees to comply with any brand identity programs instituted by PDRI and acknowledges that such program may include mandatory standard employee apparel or uniforms, vehicle appearance and signage, office appearance and signage, and use of a PDRI approved after-hours telephone answering service.

## **ARTICLE 7: RELATIONSHIP OF PARTIES**

7.1 Independent Contractor Status. Franchisee is an independent contractor and is not an agent, partner, joint venturer or employee of PDRI. No fiduciary relationship between the parties exists. Franchisee shall have no right to bind or obligate PDRI in any way or represent that Franchisee has any right to do so. Franchisee has the sole ability and control to manage its employees and to make all employment decisions in operating the Franchise Business. Neither this Agreement nor PDRI's course of conduct is intended, nor may anything in this Agreement (nor PDRI's course of conduct) be construed to state or imply that PDRI is the employer of Franchisee's employees and/or independent contractors.

7.2 Signage. Franchisee shall, if requested by PDRI, exhibit on its premises and

display on its advertising, forms and paper products, in such places and in such format as PDRI may designate, a notification that the Franchise Business is owned and operated by a separate and independent corporation and not by PDRI.

## **ARTICLE 8: TRAINING PROGRAM**

8.1 Training Obligation. The Franchisee and/or Franchisee's designated General Manager must satisfactorily complete the new owner training program which consists of: (i) up to three weeks of new owner training school conducted in Jacksonville, Florida; (ii) up to one week of new owner field training conducted at the franchise location; (iii) up to two weeks of online training prior to attending training school; and (iv) PDRI may, at its discretion, require a three day advanced new owner training class in Jacksonville approximately one year after completion of new owner school as described in section 8.3. The Franchisee's Job Cost Accountant must satisfactorily complete the job cost accountant training program which may take the form of up to one week of field training conducted at the franchise location or training via computer desktop streaming or other online courses. The fee for the new owner training program is included in the Franchise Fee, provided, however, that if this franchise was acquired from a prior franchisee, then Franchisee shall pay the training fee set forth in Exhibit B, the Schedule of Additional Terms and Conditions. The advanced training as well as all travel, living, and related expenses incurred by Franchisee or Franchisee's representative(s) during all owner training school is at Franchisee's expense.

8.2 Paul Davis New Owner Training. PDRI will train one (1) designated representative of Franchisee at the next scheduled new owner training school or at such other regularly scheduled school as is agreeable to both parties. Franchisee may have one or more additional representatives participate in the new owner training school for an additional training fee of \$5,000 per person. During the new owner training school PDRI shall provide to Franchisee's designated representative copies of the Operations Manual and of the Common Software.

8.3 Phase II Training. Franchisee agrees that when the franchise has exceeded cumulative annual Gross Sales of \$1,000,000 in any one calendar year, or as recommended by the PDRI Regional Business Consultant, the owner and/or General Manager shall attend Phase II training in Jacksonville, Florida or as directed by PDRI. Franchisee is responsible for all fees and costs associated with this training.

8.4 Post Training Review. Franchisee agrees that during the initial eight (8) weeks of operation of the franchise, PDRI shall have the right to review and approve Franchisee's estimates for contracted services prior to the release of such estimates, utilizing the FAST program as appropriate. PDRI shall make best efforts to complete each review within thirty-six (36) hours after receipt but assumes no obligation to do so within this time period. This right may be waived by PDRI at any time during the 8 week period. The initial eight week period may be extended at PDRI's discretion.

8.5 Post Opening On-Site Training. Upon commencement of Franchisee's operations, PDRI shall furnish to Franchisee, at PDRI's expense, a Launch trainer for field operations to provide on-site training at Franchisee's place of business for a period of up to five (5) working days, to include Operations and Marketing Training. PDRI shall also furnish, at PDRI's expense, a staff trainer for job cost functions for a period of four (4) or more

working days or to provide training via computer desktop streaming and Franchisee agrees to require its designated Job Cost Accountant to satisfactorily complete this training.

8.6 Rescission and Refund. At its sole discretion, PDRI reserves the right at any time prior to opening the Franchise Business to rescind this Agreement and refund to Franchisee within five (5) business days any cash payment paid to PDRI, if, in PDRI's sole discretion, Franchisee fails to meet PDRI's performance standards as evidenced through evaluations determined by classroom training and personal interviews. Franchisee agrees that if PDRI rescinds this Agreement as stated herein, Franchisee shall nevertheless continue to be bound by the arbitration provisions of the Operations Manual and the non-competition and the non-disclosure of trade secrets provisions set forth in Article 22 hereof and shall bear the costs incurred in pursuing the purchase of the franchise, other than the Franchise Fee paid to PDRI.

8.7 Recertification Training. PDRI reserves the right to require that any owner or qualifying representative be recertified upon sixty (60) day's written notice. If PDRI's Regional Business consultant recommends such a program, Franchisee agrees to attend a three to five (3-5) day recertification training program at PDRI's place of business or in any other location where the course is offered. Franchisee agrees to pay PDRI'S recertification training fee as well as Franchisee's travel and living expenses. PDRI shall provide no less than sixty (60) days' notice to Franchisee of the date of each recertification training program.

8.8 Intentionally omitted.

8.9 Post Training On-Site Consultation. In its sole discretion, PDRI may provide personal consultation, advisory and supervisory services at Franchisee's principal place of business, at a fee based on time and expense incurred by PDRI's representative, as agreed in advance, at such time as is mutually agreed by the parties.

## **ARTICLE 9: EQUIPMENT AND SUPPLIES**

9.1 Computer Software. Franchisee acknowledges that it is essential to the franchise network and to the future development of marketing and electronic commerce programs that all franchisees possess the ability to use a common software system (the "Common Software"). During the term of this Agreement, Franchisee shall acquire and maintain such computer system, including hardware and software components and electronic transmission capabilities (including internet connection), as part of the Common Software and as may be required to operate your business. Franchisee shall transmit (or "up-load" or "auto-sync") to PDRI data captured and maintained by the Common Software in the format, and using the protocols and frequency, designated by PDRI from time to time. PDRI requires that Franchisee use third party accounting, estimating and other systems required by our customers and in the industry as part of the Common Software. Franchisee is responsible for costs of obtaining, installing and maintaining such estimating systems, including all license fees associated with its possession, use or operation. Franchisee acknowledges that the insurance restoration industry and technology are subject to change and therefore it may be desirable from time to time for PDRI to designate one or more commercially available software systems as the Common Software and Franchisee agrees to obtain, at Franchisee's expense, the designated Common Software and such computer system as may be required to operate the Common Software. Additional software (such as

an operating system and an accounting program) will be required for the operation of the franchise and, in addition, some insurance companies may require a specific software system (as part of the Common Software) be used to generate and submit estimates. All additional software is the responsibility of Franchisee. In the event that PDRI elects to designate a required software program to aggregate financial data or for compliance purposes, Franchisee agrees to utilize the software designated by PDRI and to pay any fees or costs associated therewith.

9.2 Initial Printing and Sales and Marketing Supplies Package. Except in the case where the franchise is being acquired from an existing franchisee or a franchise renewal, PDRI shall supply an initial printing and sales and marketing supplies package to Franchisee, to be delivered to Franchisee during the classroom training program attended by Franchisee or after receipt of required information from Franchisee. Franchisee shall thereafter use only such sales and marketing materials as shall be approved by PDRI.

9.3 Subsequent Printing Supplies. Franchisee shall purchase printing supplies only from suppliers approved by PDRI.

## **ARTICLE 10: COUNCILS**

10.1 Establishment of Councils. Booklet Two of the Operations Manual, entitled "Plan of Operation for the Paul Davis Council" (the "Plan of Operation") describes the governing body for the franchisees: the General Council, comprised of all operating PDRI franchisees; the District Councils for each operating district, comprised of one representative of each PDRI franchise in a defined geographic area designated by PDRI, which serve as the decision making bodies for the PDRI franchisees; and the National Executive Committee, comprised of one (1) franchisee from each District Council and a PDRI representative. The Plan of Operation establishes rules and regulations for the governance and operation of the General Council, the District Councils and the National Executive Committee. Such rules and regulations include procedures for consideration and approval of recommendations that may be submitted by District Councils, PDRI or any franchisee for new programs, for amendments to the Operations Manual (including amendments to the Plan of Operation) and for any other change in the operations of the franchises. Franchisee agrees to be bound by and comply with any and all such new programs, amendments to the Operations Manual and other changes in the operations of the franchises as may be approved from time to time in accordance with the Plan of Operation.

10.2 Designated District. PDRI shall assign Franchisee to a District Council designated by PDRI which encompasses the Franchise Territory.

## **ARTICLE 11: ADVERTISING**

11.1 Franchisee's Right to Advertise. PDRI grants to Franchisee the right to establish, create, and undertake promotional and advertising programs at Franchisee's own cost and expense, with the prior written approval of PDRI. Such approval shall not be unreasonably withheld.

11.2 Franchisee Web Site. PDRI shall establish a franchise specific web site ("Franchise Web Site") and with a unique Universal Resource Locator or URL ("URL",

defined as a unique set of characters that when entered into a commercially available and readily accessible device for resolving IP addresses that the only possible resolution is an http page that is clearly specific to a unique franchise referenced in this Agreement) domain name for Franchisee's use during the term of this Agreement and Franchisee shall not establish or maintain any other web site or URL related to the Franchise Business without PDRI's prior written consent. Franchisee shall be responsible to maintain and update the Franchise Web Site content and for all fees required by third party web site companies to host and maintain the Franchise Web Site. PDRI reserves the right, at any time and at its sole discretion, to modify or delete any Franchise Web Site content, to modify the appearance or functionality of the Franchise Web Site, or to discontinue the Franchise Web Site.

11.3 Use of Third Party Web Sites. Franchisee may establish and use third party web sites such as social media or directory web sites ("Third Party Web Sites") to advertise and promote the Franchise Business. PDRI reserves the right, at its sole discretion, to require that Franchisee discontinue or modify its use of, or content provided to, such Third Party Web Sites and Franchisee agrees to comply with such requirements. Franchisee shall provide PDRI access to such Third Party Web Site accounts (including URLs, access codes, logins, and passwords) and PDRI at its discretion may from time to time provide content updates to such Third Party Web Sites. Failure to comply with this section including but not limited to Franchisee's failure to comply with Federal, State or local laws governing privacy or accessibility is a material cause for termination.

11.4 Approval of Electronic Transmission. Franchisee shall not use the name or Marks of PDRI in connection with any electronic commerce or other electronic transmission, including, without limitation, communication via the internet, e-mail, web sites, social media networks, or text messages without the prior written approval of PDRI. Such approval shall not be unreasonably withheld.

11.5 Domain Names / E-Mail Addresses. Franchisee hereby irrevocably assigns to PDRI all rights, title and interest that Franchisee may have now or in the future in any internet domain name/URL, e-mail address, and Third Party Web Site URL, access codes, logins, and passwords that Franchisee establishes or uses in the operation of the Franchise Business, whether or not such domain name or the web site to which it relates or e-mail address was provided or approved by PDRI.

## **ARTICLE 12: INSURANCE**

12.1 Required Insurance. Franchisee shall procure and maintain insurance policies providing the following coverage:

(a) Worker's Compensation Insurance coverage for the Owner and Franchisee's employees notwithstanding the statutory requirements of the state in which Franchisee operates.

(b) Employer's Liability Insurance with limits of not less than \$500,000 each occurrence and in aggregate.

(c) Commercial General Liability Insurance, including products liability and broad form contractual liability, with limits of not less than \$1 million per occurrence and \$2

million aggregate.

(d) Contractor's Pollution Liability Insurance with limits of not less than \$1 million per occurrence and in aggregate.

(e) Business Automobile Liability Insurance (including Automobile Non-Ownership Liability) with a combined single limit of not less than \$1 million per occurrence.

(f) Umbrella or Excess Liability Insurance with limits of not less than \$4 million each occurrence and in aggregate.

(g) Bailee Insurance for personal property in the care, custody or control of Franchisee with limits of not less than \$250,000 per occurrence and in aggregate.

Each policy shall provide a separate endorsement naming PDRI, and its parent, affiliates and subsidiaries, and CSI as additional named insureds; shall provide that the policy is primary over the coverage of PDRI; cannot be canceled without thirty (30) days prior written notice to PDRI; and shall insure the contractual liability of Franchisee. Any failure to have the appropriate insurance as described herein shall be considered a material breach of this Agreement. PDRI shall have the right to change these requirements at any time to comply with contractual obligations or industry standards.

12.2 Certificates of Insurance. Prior to the commencement of operations, Franchisee shall furnish to PDRI, or its designee, a Certificate of Insurance reflecting that the required insurance coverage is in effect and, if requested, a copy of all such insurance policies. All policies shall be renewed, and Franchisee shall provide PDRI with a renewal Certificate of Insurance for each policy, in a manner designated by PDRI, prior to the expiration of the prior policy.

### **ARTICLE 13: HOLD HARMLESS**

13.1 Liability to Third Parties. Franchisee is solely responsible for all claims, demands, losses, obligations, liens, costs, expenses, liabilities, debts or damages to or by third parties arising out of or in connection with the possession, ownership, operation, transfer or proposed transfer of the Franchise Business, for all claims or demands for damages to property or for injury, illness or death of persons directly or indirectly resulting therefrom, and for all claims involving alleged state or federal employment or labor law violations, violations of data privacy laws, or the negligent acts of Franchisee's employees (collectively, a "Claim").

Franchisee agrees to defend, indemnify and save PDRI, its parent, subsidiaries, affiliates, officers, directors and employees harmless from and assume all liability of, with respect to and for any such Claims unless resulting from the gross negligence of PDRI. PDRI shall notify Franchisee of any Claim, and Franchisee may assume the defense of the matter. If Franchisee fails to assume the defense or resolve the claim to the satisfaction of PDRI, or if an actual or potential conflict of interest exists or arises for any counsel selected by Franchisee to represent PDRI, PDRI may resolve the claim and/or defend the action in the manner it deems appropriate. Franchisee shall pay to PDRI all costs, including attorney's fees, incurred by PDRI in defending any Claim, in addition to any loss which PDRI may pay by reason of any payment, settlement or judgment against PDRI.

PDRI's right to indemnity under this Agreement shall arise notwithstanding that joint or concurrent liability may be imposed on PDRI by statute, ordinance, regulation or other law. This Article 13 shall survive the termination, transfer or non-renewal of this Agreement.

13.2 Insurer Indemnification. As a requirement for Franchisee's participation in certain claim referral programs, PDRI is required to indemnify the insurance company making the referral from any claims arising from Franchisee's servicing of the claim. The cost of a general liability insurance policy insuring that obligation is currently reimbursed by CSI. If CSI discontinues reimbursement of the cost of the insurance policy, then PDRI may, at its option, discontinue the indemnification of the insurance company or condition participation in the programs on Franchisee individually reimbursing PDRI for their pro rata share of the cost of the insurance policy insuring the indemnification. Nothing in this section 13.2 shall alter the obligations contained in section 13.1 above.

#### **ARTICLE 14: TAXES; LICENSING**

14.1 Taxes. Franchisee agrees that it will promptly pay any and all income taxes, personal property taxes, real property taxes, or other taxes of any nature that may be imposed, levied or assessed against Franchisee by any federal, state, county or municipal government.

14.2 Licensing. Franchisee agrees to obtain any general contracting and other licenses required by the laws of the jurisdiction(s) in which Franchisee operates the Franchise Business and to promptly pay any licensing fees that may be required from time to time under local or state law to operate the Franchise Business in the Franchise Territory. Franchisee hereby represents that Franchisee has investigated the licensing requirements of the jurisdiction(s) in which Franchisee intends to do business prior to the execution of this Agreement.

#### **ARTICLE 15: EMPLOYEES OF FRANCHISEE**

15.1 Franchise Staffing. Franchisee shall at all times employ a full-time General Manager, with training or experience equivalent (determined in PDRI's sole judgment) to the new owner training program as well as a full-time Marketer. It is recommended that Franchisee employ a trained Job Cost Accountant at the time of opening. A Start-up Franchisee may employ a part time employee or vendor to perform this function, as approved by the PDRI Regional Business Consultant. The General Manager may be a franchise employee and not a Principal Owner, if approved by PDRI and upon completion of Exhibit D attached to this Agreement. After one year in operation, Franchisee shall employ a full-time Mitigation Technician certified in water damage, fire and smoke, applied structural drying, and mold remediation.

15.2 Employees are Under Control of Franchisee. Franchisee agrees that all persons hired or employed by or under contract with Franchisee in connection with the operation of the Franchise Business shall be considered to be employees or agents of Franchisee and not of PDRI, and such employees and agents shall be solely and exclusively under Franchisee's orders, direction and control, and Franchisee shall at its own cost and expense comply with all unemployment insurance, old age pension, and other social security acts or statutes applicable to employers or employees or both, and whether

now in force, or hereafter enacted, and shall pay, duly and punctually, any and all rates, taxes, assessments, and contributions that may be required or demanded under or by virtue of any of such acts or statutes. Unless expressly provided otherwise in this Agreement, PDRI shall have no involvement in the hiring or firing of Franchisee's employees.

## **ARTICLE 16**

16.1 Intentionally Omitted.

## **ARTICLE 17: TERMINATION BY PDRI**

17.1 Termination with Opportunity to Cure. PDRI may terminate this Agreement and all franchise rights granted hereunder at any time, if Franchisee fails to cure within fifteen (15) days of written notice any of the following:

(a) Non-payment by Franchisee of any sums due PDRI as required by the terms of this Agreement or by any other agreement, note, or instrument signed by the parties, including non-payment of sums due to third parties whose payments by Franchisee have been guaranteed by PDRI.

(b) Failure by Franchisee to maintain and operate the Franchise Business in accordance with good business practices and in accordance with the rules, regulations, methods and procedures contained in this Agreement and the Operations Manual as now compiled or as amended from time to time during the term of this Agreement;

(c) Failure by Franchisee to procure or maintain any licenses, certifications, or permits necessary for the operation of Franchisee's Franchise Business, and/or failing to provide PDRI with written documentation evidence Franchisee's compliance with such rules, regulations, laws, insurance requirements and/or standards set forth in this Agreement and the Operations Manual;

(d) Failure by Franchisee to enforce to the fullest extent permitted by law any non-competition and trade secrets provision in this Agreement or in any agreement between Franchisee and any of Franchisee's employees or associates; or

(e) Commission or omission by Franchisee of any other act, not enumerated herein, which constitutes a breach of the terms and conditions of this Agreement.

17.2 Termination without Opportunity to Cure. PDRI may terminate this Agreement and all rights granted hereunder at any time, without a right to cure, upon written notice of termination, in the event of any of the following:

(a) Three (3) breaches of this Agreement within any rolling twelve (12) month period, for which PDRI has provided notice and a right to cure the first two breaches under Section 17.1;

(b) Filing by Franchisee or Principal Owner of a voluntary petition in bankruptcy, adjudication of bankruptcy, any assignment for the benefit of creditors, or appointment of a trustee or receiver in bankruptcy for Franchisee;

(c) Failure of Franchisee to commence operations (as defined in this Agreement) within six (6) weeks after completion of the classroom training program;

(d) Abandonment of the Franchise Business, defined as either (i) Franchisee's announced intention to close or abandon the Franchise Business, (ii) Franchisee's failure to report sales for three (3) consecutive months, or (iii) Franchisee's failure to operate the Franchise Business for ten (10) consecutive days;

(e) Franchisee's material misrepresentation to PDRI on the application for the Franchise Business, or with respect to ownership of the Franchise Business, or Franchisee's omission or misrepresentation of any material fact relevant to the decision of PDRI to enter into this Agreement;

(f) Conviction of Franchisee or Principal Owner of a felony offense, a crime involving moral turpitude, or any other crime or offense that PDRI believes is reasonably likely to have an adverse effect upon the Franchise Business, the Marks, or the goodwill associated therewith;

(g) An unapproved Transfer, as defined in Article 20;

(h) A violation of the in-term covenant not to compete or of the covenants of non-disclosure of trade secrets set forth in Article 22 of this Agreement;

(i) A violation of the terms of Section 6.7 relating to reporting and inspection requirements, including but not limited to the failure to provide financial statements as required therein;

(j) Other acts which PDRI determines may reflect adversely on the Franchise System, the Marks, or the services offered through the Franchise System, or which may otherwise bring discredit on the entire franchise organization such as, but not limited to, willful acts of dishonesty toward PDRI, property owners, insurers, and other third parties dealing with Franchisee, PDRI or other franchises;

(k) Fraudulent reporting of financial or operational information to PDRI, including Franchisee knowingly maintaining false books or records, or knowingly submitting a false or fraudulent report, statement, or document to PDRI;

(l) Failure to maintain insurance as set forth in Article 12 of this Agreement;

(m) Misuse or any unauthorized use of PDRI's name or any of the Marks, the Common Software, or the Operations Manual, or other impairment of the goodwill associated with them or PDRI's rights in them; or

(n) Franchisee's disclosure of the contents of the Operations Manual or other confidential information provided to Franchisee contrary to the terms of this Agreement.

## **ARTICLE 18**

18.1 Intentionally omitted.

## **ARTICLE 19: PROCEDURES AFTER TERMINATION**

19.1 Obligations of Franchisee. Upon termination (including non-renewal) of this Agreement for any reason and by any party, Franchisee and Principal Owner agree to immediately do the following:

- (a) Surrender all rights under this Agreement;
- (b) Pay in full all outstanding amounts due to PDRI under the term of the Franchise Agreement, Franchisee's employees, independent agents, tradespeople, subcontractors, vendors and suppliers;
- (c) Refrain from using the Marks or any name or initials similar thereto in Franchisee's corporate name, on signs, places of business or advertising of any nature, directly or indirectly;
- (d) Surrender to PDRI the Operations Manual and the Common Software and not utilize the system, procedures and methods contained therein for the conduct of any construction business at any time or any place thereafter forever;
- (e) Assign to PDRI or its designee, or, at PDRI's election, disconnect, any telephone numbers (including telefax numbers), e-mail addresses, and Domain Names (URLs) used in operating, or associated with, the franchise, pursuant to the Telephone Number and Internet Agreement attached hereto as Exhibit E, which Franchisee is required to complete, sign, and notarize prior to opening the Franchise Business;
- (f) De-identify the premises used in operating the Franchise Business, including, but not limited to, removal and destruction of signs, markings and materials containing the Marks;
- (g) De-Identify any vehicle used in connection with the Franchise Business, including, without limitation, removal and destruction of the vehicle wrap, lettering, window graphics or other markings and materials containing the Marks;
- (h) Forego use of and destroy any materials containing the Marks; and
- (i) Abide by the Non-Competition and Trade Secrets provisions in Article 22.
- (j) Surrender to PDRI all lists and contact information for all customers, clients, suppliers, and subcontractors with which the Franchise Business has had business relations of any kind.

19.2 Rights of PDRI. Upon termination of this Agreement for any reason PDRI may, in its sole discretion:

- (a) Enter Franchisee's premises and destroy all computer programs supplied by PDRI or containing PDRI's Trade Secrets (as defined in Section 22.3), on any and all computers owned, leased, rented or in any way operated for the benefit of Franchisee;
- (b) Have all existing telephone numbers, e-mail addresses and Domain Names

(URLs) which have been used in any way in the operation of, or associated with, Franchisee's business transferred, disconnected or referred to another number;

(c) Collect the Operations Manual and any other of PDRI's proprietary material and the Common Software;

(d) Sell the franchise rights for the Franchise Territory and retain the proceeds;

(e) De-identify the premises and vehicles at Franchisee's expense to the extent such de-identification has not been timely accomplished by Franchisee; and

(f) PDRI shall have the right to purchase for cash the Franchise Business at fair market value. Such purchase may take the form, at PDRI's option, of the purchase from Principal Owner of all of the stock or other ownership interests in Franchisee or the purchase from Franchisee of all of the assets of Franchisee used in the operation of the Franchise Business. PDRI may exercise such right by giving written notice of its intention to purchase the Franchise Business within ninety (90) days of the date of termination. The notice shall specify the price and other terms of purchase including a two (2) year non-competition agreement for the Franchise Territory and the area within one hundred (100) miles of the franchise office. If Franchisee disagrees with the offered price and other purchase terms, Franchisee may file arbitration to have a PDR arbitration committee determine the price and other purchase terms with the standard being fair market value and commercially reasonable purchase terms. Franchisee shall have the burden of providing evidence that the offer is not commercially reasonable or at fair market value. In the event an arbitration committee modifies the price or other purchase terms, then PDRI shall have ten (10) days in which to withdraw its notice of intent to purchase.

## **ARTICLE 20: ASSIGNMENT, SALE OR TRANSFER**

20.1 Restriction on Transfers. "Transfer" shall mean any sale, assignment, transfer or encumbrance, in whole or part, of: (i) this Agreement; (ii) Principal Owner's or Franchisee's rights and interests under this Agreement; (iii) the Franchise Business; or (iv) the capital stock or other ownership interest of the Franchisee corporate entity. "Minority Transfer" shall mean any Transfer of less than fifty percent (50%) of the total capital stock or other ownership interest of Franchisee, measured both individually and in the aggregate of all Minority Transfers and which does not result in the change of majority control of Franchisee. Franchisee and Principal Owner shall not make any Transfer (including any Minority Transfers) without the prior written consent of PDRI, which shall not be unreasonably withheld. In addition to the consent of PDRI, all Transfers shall be conditioned on the following:

(a) Franchisee shall have submitted to PDRI a written request for PDRI's consent to Transfer, accompanied by a copy of the agreement for such Transfer (the "Transfer Contract");

(b) Franchise shall have paid to PDRI a transfer fee of \$10,000 (\$5,000 in the case of a Minority Transfer); in addition to this transfer fee, in the case of a majority resale, a resale fee of two and a half percent (2.5%) of the sale price to a maximum of \$25,000 shall also be due to cover PDRI's due diligence and other expenses related to the re-sale (including qualification of the transferee), and such amounts must accompany the request

for consent to Transfer and shall be non-refundable;

(c) There shall be no existing default in the performance or observance of any of Franchisee's obligations under this Agreement or, any other agreement between Franchisee and PDRI and Franchisee shall be current in all sums due PDRI and CSI;

(d) The Franchisee and the proposed transferee shall execute a Tri-Party Agreement for the Transfer of a Paul Davis Restoration Franchise, in its then-current form, and the proposed transferee shall agree to assume all liabilities of Franchisee for completion of work in progress and for servicing all warranties in effect for work completed by Franchisee;

(e) The proposed transferee shall have completed, to the satisfaction of PDRI, all documents required by PDRI as part of its then current application process and shall meet PDRI's then current criteria for the granting of a new franchise, including a personal interview with a PDRI representative; and

(f) The proposed transferee shall have agreed with PDRI to:

(i) attend PDRI's next available training program for new franchisees at a time and location designated by PDRI;

(ii) pay to PDRI the then established training fees for all training required to qualify the proposed transferee as a new franchisee. Currently such fees are \$18,000 per person (for majority transfer) or \$5,000 per person (for minority transfer).

(iii) execute the then-current franchise agreement (the standard franchise agreement used for a new franchise) and perform all the duties and obligations required to be performed, fulfilled and observed by the franchisee under such franchise agreement (excluding the payment of the initial franchise fee);

(iv) acquire, if necessary, computer hardware compatible with the Common Software in use by PDRI franchisees as of the date of transfer; and

(v) assume all conditions and obligations set forth in Article 13 hereof, holding PDRI harmless for loss or damage to third parties.

20.2 Sale of Franchise to Prospect Identified by PDRI. Franchisee acknowledges that PDRI invests in on-going efforts to identify and develop prospects for franchise sales. If any transferee was first identified as a sales prospect by PDRI or any sales agent engaged by PDRI, then Franchisee shall pay (due upon closing) to PDRI the sum of \$30,000 or such greater sum as PDRI may be obligated to pay any such sales agent. An individual shall be identified as a PDRI sales prospect by PDRI's receipt of confidential information form from the individual that was not first associated with a transfer transaction. Fees due under this Section are in addition to any other transfer or resale fees outlined in this Agreement.

20.3 Right of First Refusal. At any time within thirty (30) days after receipt by PDRI of both the written request to consent to a Transfer and a copy of the Transfer Contract, PDRI shall have the option to purchase or otherwise acquire such of Franchisee's rights under this Agreement together with all such other property and rights of Franchisee

as may be the subject matter of such Transfer Contract, upon the same terms and conditions as those set forth in the Transfer Contract. PDRI may exercise its option by giving written notice of its acceptance to Franchisee. The provisions of this paragraph shall not apply to any proposed Transfer to any child, parent, sibling or spouse of Principal Owner.

20.4 Involuntary Transfer. The personal confidence reposed in Principal Owner is a material part of the consideration for PDRI's entering into this Agreement and no person or entity shall succeed to any of the rights of Franchisee or Principal Owner under this Agreement by virtue of any voluntary or involuntary proceeding in bankruptcy, receivership, attachment, execution, assignment for the benefit of creditors or other legal process.

20.5 Violation. Any attempt by Franchisee or Principal Owner to affect a Transfer without the prior written consent of PDRI shall constitute a material breach of this Agreement and any such Transfer shall be null and void.

20.6 Transfers to Heirs. The legal heirs of Principal Owner may inherit the Principal Owner's rights under this Agreement, subject to approval by PDRI (which shall not be unreasonably withheld) and completion by the new Principal Owner of PDRI's New Owner training program within three (3) months after the date of transfer. Such heirs shall be subject to all of Franchisee's obligations hereunder but shall not be required to pay any transfer fee.

20.7 Transfers by PDRI. PDRI may assign, sell, transfer or encumber its rights under this Agreement without the prior consent of Franchisee. Any such assignment, sale, transfer or encumbrance by PDRI shall relieve PDRI of its liability to Franchisee under the terms of this Agreement.

## **ARTICLE 21: REFUND POLICY**

21.1 No Refund. Neither Franchisee nor Principal Owner, upon termination or cancellation of this Agreement or the franchise for any reason, shall be entitled to any refund or rebate in whole or in part of the Franchise Fee, or of any Royalty Fee or other fees herein agreed to be paid, other than as provided in Section 8.6 of this Agreement.

## **ARTICLE 22: NON-COMPETITION; POST-TERMINATION COMMISSIONS; AND TRADE SECRETS**

22.1 Non-Competition. Franchisee and Principal Owner acknowledge that as a participant in PDRI's Franchise System, Franchisee will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques which PDRI has developed. Therefore, to protect PDRI and all of PDRI's franchisees, Franchisee and Principal Owner agree as follows:

(a) During the term of this Agreement, neither Franchisee, Franchisee's officers or Principal Owner, nor any member of their immediate family may, directly or indirectly:

- (i) Engage in any business involving emergency services (including drying, cleaning, decontamination, repair, board-up, demolition, loss mitigation, and mold remediation), insurance restoration construction

and reconstruction of residential and commercial buildings, structures and contents (a "Competing Business"); provided, however, that this section does not apply to the operation of any other PDRI Franchise Business;

- (ii) Employ or otherwise disrupt the employment of any person who is at that time employed by PDRI, PDRI affiliates or any other Franchise System franchisee; or
- (iii) Divert or attempt to divert any business or customer of the Franchise Business to any competitor, or otherwise harm the goodwill associated with the Marks or the Franchise System.

(b) During the two (2) year period commencing on the termination, expiration, or transfer of this Agreement, neither Franchisee, Franchisee's officers or Principal Owner, nor any member of their immediate family may, directly or indirectly:

(i) Engage in a Competing Business at any location within one hundred (100) miles of the Franchise Territory or within the franchise territory of any other franchisee of PDRI; or

(ii) Contact Franchisee's former PDRI customers, suppliers or vendors, or any employees of PDRI or its affiliates or franchisees, for a competitive business purpose.

(c) Franchisee hereby agrees that the existence of any claim Franchisee may have against PDRI, whether or not arising from this Agreement, shall not constitute a defense to PDRI's enforcement of the covenants contained in this Article 22. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees) which PDRI incurs in connection with the enforcement of this Article 22.

(d) Franchisee and Principal Owner acknowledge that the limitations contained in this Article are necessary to protect the legitimate business interests of PDRI, including, but not limited to, its confidential business processes and training provided to Franchisee and Principal Owner, protection of its trade secrets, as defined herein, and its ability to rebrand the Franchise Territory.

(e) For purposes of this Article, the term "directly or indirectly" engaging in a Competing Business shall include, but not be limited to: (i) acting as an agent, representative, consultant, officer, director, independent contractor or employee of any entity or enterprise; and (ii) participating directly or indirectly in any such entity or enterprise as an owner, partner, limited partner, joint venturer, material creditor or stockholder (except as a stockholder holding less than a one percent (1%) interest in a corporation whose shares are traded on a national securities exchange or in the over-the-counter market).

(f) Franchisee and Principal Owner agree that PDRI, or any franchisee or affiliate of PDRI, as the case may be, shall be entitled to enforce the provisions of this article. Each such party shall be entitled, in addition to any other remedies that it may have under this Agreement or otherwise, to preliminary and permanent injunctive and other equitable relief to prevent or curtail any breach or threatened breach of this Agreement by Franchisee

or Principal Owner. No reference in this Agreement to a specific legal or equitable remedy shall be construed as a waiver of other legal or equitable remedies in the event of such a breach.

(g) Except to the extent required to operate the Franchise Business and to train its employees, associates and independent subcontractors in accordance with the Operations Manual, Franchisee and Principal Owner agree that they will at no time, regardless of the terms of this Agreement, reveal any of the methods or systems used by PDRI in its business to any person, corporation, or other entity unless written permission is given in advance by PDRI.

(h) Franchisee and Principal Owner agree that they will enforce these non-competition provisions as to contracts with its employees and associates. Franchisee shall ensure that Franchisee's principals, employees and members of their immediate families who have access to PDRI's Trade Secrets (as defined below), including Franchisee's managers and other key employees, execute a Confidentiality and Restrictive Covenant Agreement, in the form attached as Exhibit D to this Agreement, or as PDRI, in PDRI's sole discretion, otherwise prescribes. Franchisee must furnish PDRI a copy of each executed agreement, upon request.

22.2 Post-Termination Commissions. Franchisee and Principal Owner acknowledge that they may develop relationships with various insurance companies (each an "Insurance Company") as a result of introductions by PDRI or by other Paul Davis Restoration franchisees or their status as a PDRI franchisee. Franchisee and Principal Owner each agree that for a period of two years following Termination that any business that Franchisee or Principal Owner receives or accepts from Insurance Company shall automatically result in a sales commission of 25% of the gross sales amount, immediately due and payable from Franchisee and Principal Owner to PDRI. For purposes of this section 22.2, the term Insurance Company shall include any person or entity acting on behalf of an Insurance Company to assign, arrange for, or manage reconstruction, restoration or cleaning services for losses insured by such Insurance Company.

22.3 Trade Secrets. Franchisee and Principal Owner hereby agree to the following limitations on their right and the right of Franchisee's employees to use certain information obtained in connection with this Agreement:

(a) Trade Secret Defined. Upon completion of the Training Program, Franchisee shall possess certain secret and confidential information of PDRI consisting of customer lists; contract forms; appraisal techniques; ideas and data contained in the Common Software and Operations Manual; knowledge of sales and profit performance of PDRI's other franchisees; sources of construction suppliers; methods of selecting subcontractors and other methods, techniques, know-how, formulas and data, now existing or hereinafter developed or acquired relating to the operation and franchising of a Paul Davis Restoration franchise, but not including information or techniques in the public domain and generally known and used by general contractors and cleaning service suppliers other than through disclosure by Franchisee. All of the foregoing is hereinafter referred to as the "Trade Secrets."

(b) Right to Use Trade Secrets. PDRI shall disclose the Trade Secrets to Franchisee by lending to Franchisee, for the term of this Agreement, the Operations Manual

and other written materials, and the Common Software, all containing the Trade Secrets, through training and assistance provided to Franchisee hereunder, and by and through the performance of PDRI's other obligations under this Agreement. Franchisee acknowledges that PDRI is the sole owner of all Trade Secrets; that such information is being imparted to Franchisee only by reason of its special status as a Franchisee of the Paul Davis Restoration franchise; and that the Trade Secrets are not generally known to the trade or public and are not known to Franchisee except by reason of such disclosure. Franchisee further acknowledges that it shall acquire no interest in the Trade Secrets other than the right to use them in the development and operation of the Franchise during the term of this Agreement. Franchisee further acknowledges that the use or duplication of the Trade Secrets except as expressly permitted by this Agreement shall constitute an unfair method of competition and that PDRI shall suffer irreparable injury thereby.

(c) Covenant Not to Disclose. Franchisee acknowledges that the Trade Secrets are disclosed to Franchisee solely on the condition that Franchisee agrees, and Franchisee hereby does agree, that Franchisee:

(i) will use the Trade Secrets in strict accordance with the Operations Manual and with directions given by PDRI from time to time;

(ii) will not use the Trade Secrets in any other business or capacity;

(iii) will maintain the absolute confidentiality of the Trade Secrets during and after the term of this Agreement;

(iv) will not duplicate copy or otherwise reproduce any written materials or computer software containing the Trade Secrets unless it has received prior written consent from PDRI;

(v) will observe and implement those procedures established by PDRI and set forth in the Operations Manual to control the use and disclosure of Trade Secrets by employees of Franchisee; and

(vi) will immediately notify PDRI in writing of any suspected or actual use of the Trade Secrets by a third party.

(d) Covenant to Secure Materials. Franchisee shall keep all Operations Manual, other written materials and the Common Software containing the Trade Secrets in a secure location and shall maintain control over such materials at all times. Franchisee shall disclose the Trade Secrets to employees or independent contractors only to the extent required for such employees or independent contractors to perform their duties of employment.

(e) Changes to Trade Secrets. PDRI retains the right to make additions, deletions and revisions to the Trade Secrets. Such changes shall become binding upon Franchisee upon notification thereof and Franchisee agrees to take all steps necessary to implement such changes and to update all written materials evidencing such changes.

22.4 Reformation of Provisions. Any arbitration panel or court of law shall have the right to reform this article to make it reasonable and enforceable under applicable law.

PDRI reserves the right to reduce the scope of Franchisee's obligations under the foregoing covenants without Franchisee's consent, effective immediately upon notice.

### **ARTICLE 23: DISPUTE RESOLUTION**

23.1 Arbitration. Any controversy or claim arising out of or relating to this Agreement or the operation or the actual or proposed acquisition or sale of the Franchise Business shall be settled by binding arbitration in accordance with the arbitration procedures as set forth in the Operations Manual. Any arbitration governed by this Agreement shall not be given class status. The initiation or pendency of any arbitration proceeding involving the Franchisee shall have no effect on PDRI's right to terminate this Agreement. Franchisee acknowledges that notwithstanding any ambiguity as to the enforceability of this arbitration agreement contained in any State Addendum to this Agreement or in PDRI's Franchise Disclosure Document, that it is the intent and agreement of the parties that this arbitration agreement shall be enforced to the maximum extent allowed by law. The obligation to arbitrate shall survive the termination, transfer, or non-renewal of this Agreement. The obligation to arbitrate shall apply to any disputes involving Franchisee's Principal Owner, Franchise's officers, directors, stockholders, members, partners, trustees, beneficiaries, principals and any person controlled by, controlling or under common control with Franchisee.

23.2 Costs and Attorneys' Fees. In any dispute arising out of this Agreement each party shall be responsible for their own costs and expenses, including attorneys' fees, provided, however, that any party hereunder failing to comply with Section 23.1 above including, but not limited to, failing or refusing to arbitrate a dispute or to abide by the decision of the arbitration panel shall be liable to the other party for all costs and attorneys' fees incurred in enforcing the arbitration provisions

23.3 Bankruptcy Costs and Attorneys Fees. In the event of a bankruptcy by the Franchisee, the Franchisee shall be liable to PDRI for all of PDRI's costs and attorneys fees associated with the bankruptcy.

23.4 Federal Arbitration Act. Any controversies or disputes concerning the enforceability or scope of this arbitration agreement shall be resolved pursuant to the Federal Arbitration Act, 9 U.S.C. 1, et. seq. (the "FAA"), and Franchisee acknowledges that, notwithstanding any contrary language in PDRI's Franchise Disclosure Document or in any State Addendum, the FAA preempts any state law restrictions on the enforcement of this arbitration agreement according to its terms.

23.5 NO CLASS OR CONSOLIDATED ACTIONS. ALL CLAIMS, CONTROVERSIES, AND DISPUTES MAY ONLY BE BROUGHT BY FRANCHISEE ON AN INDIVIDUAL BASIS AND MAY NOT BE CONSOLIDATED WITH ANY CLAIM, CONTROVERSY OR DISPUTE FOR OR ON BEHALF OF ANY OTHER FRANCHISEE OR BE PURSUED AS PART OF A CLASS ACTION.

### **ARTICLE 24: RECEIPT OF FRANCHISE DISCLOSURE DOCUMENT**

24.1 Acknowledgment of Receipt. By the signing of this Agreement, Franchisee and its Principal Owner acknowledge receipt of a Paul Davis Restoration Franchise Disclosure Document at least fourteen (14) days prior to the signing of this Agreement.

## **ARTICLE 25**

25.1 Intentionally omitted.

## **ARTICLE 26: MODIFICATION**

26.1 Written Consent Requirement. No other agreement or understanding hereafter modifying or supplementing this Agreement shall be binding in any way upon either party unless confirmed in writing and signed by the duly authorized representatives of each party.

## **ARTICLE 27: VALIDITY**

27.1 Effect of Invalidity of Clause. Should one particular article or provision of this Agreement, or any word, phrase, sentence, clause or paragraph thereof be declared invalid or illegal by any arbitration panel or court such invalidity or illegality shall not affect the remainder of this Agreement which shall remain in full force and effect and shall be construed in all respects as if such invalid or illegal articles or provisions were omitted.

## **ARTICLE 28: WAIVER**

28.1 Waiver of Breach. A waiver or forbearance of any of the terms, covenants, or conditions of this Agreement shall not be deemed or considered as a waiver in the future of any new or continuing breach of the terms, covenants or conditions of this Agreement.

## **ARTICLE 29: CONSTRUCTION**

29.1 Governing Law. This Agreement shall be deemed to have been written, approved and accepted at Jacksonville, Duval County, Florida, and the construction and interpretation of said Agreement, wherever executed and wherever to be performed, shall be governed by and construed under the laws of the State of Florida, excluding its conflict of laws principals. In the event of any conflict between this Agreement and the Operations Manual, the provisions of this Agreement shall govern and supersede any contrary provisions contained in the Operations Manual.

## **ARTICLE 30: GUARANTEE OF PRINCIPALS**

30.1 Personal Guaranty. If Franchisee is a business entity, all shareholders, partners, and/or members/managers (as applicable) of Franchisee hereby personally and unconditionally guarantee without notice, demand or presentment, the payment of all of Franchisee's monetary obligations under this Agreement and any other agreement between Franchisee and PDRI and/or PDRI's affiliates, as if each were an original party to this or any other agreement in his or her individual capacity. All such personal guarantors further agree to be bound by the restrictions upon Franchisee's activities upon transfer, termination or expiration and nonrenewal of this Agreement as if each were an original party to this Agreement in his or her individual capacity.

30.2 Spousal Acknowledgement. If any Franchisee or Principal Owner is married or has a registered domestic partner as of the effective date of this Agreement, such

Franchisee's or Principal Owner's spouse or registered domestic partner shall execute the spousal acknowledgment (the "Spousal Acknowledgement") immediately following the signature page of this Agreement.

### **ARTICLE 31: NOTICE**

31.1 Provision of Notice. Any notices required to be given by this Agreement shall be directed to PDRI, Franchisee or any one of the Principal Owner(s) at their respective last known business address. The notice must be delivered prepaid by one of the following methods: personal delivery; Federal Express® or other similar overnight delivery service; verified facsimile transmission; or United States express, certified, or registered mail, return receipt requested. A notice shall be deemed received on the earliest of the day it was actually received, the day its delivery was refused, or the third business day following the day it was deposited with one of the specified carriers.

### **ARTICLE 32: ENTIRE AGREEMENT**

32.1 Integration of Agreement. This Agreement, including all addenda signed by the parties, contains the entire agreement between the parties. All prior and collateral representations, promises and conditions in connection with the subject matter hereof are deemed to have been merged herein, and any representation, promise or condition not incorporated herein shall not be binding upon either party. Nothing contained in this Agreement is intended to disclaim the representations made by PDRI in the franchise disclosure document provided to Franchisee. This Agreement may be executed in counterparts and each such counterpart is deemed an original. The signature of any party on any one counterpart binds that party to the Agreement.

### **SIGNATURES AND SPOUSAL ACKNOWLEDGEMENTS ON FOLLOWING PAGES**

**IN WITNESS WHEREOF**, the parties hereto have hereunto set their hands and seals effective the day and year first above written.

**PDRI:**

Paul Davis Restoration, Inc.

\_\_\_\_\_  
Date signed

By: \_\_\_\_\_  
Its: COO

**PRINCIPAL OWNER:**                      (% OWNERSHIP)

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Print name:                      (\_\_\_\_%)

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Print name:                      (\_\_\_\_%)

**FRANCHISEE:**

\_\_\_\_\_

\_\_\_\_\_  
Date signed

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its (title): \_\_\_\_\_

**PRINCIPAL OWNERS ACKNOWLEDGE THAT THE CORPORATE DOCUMENTS MUST MATCH THE OWNERSHIP INTERESTS AS REFLECTED IN THIS AGREEMENT. ANY TRANSFER WITHOUT THE PRIOR WRITTEN CONSENT OF PDRI MAY NOT BE HONORED AND THIS AGREEMENT MAY BE SUBJECT TO TERMINATION.**

**IF THE PRINCIPAL OWNERS OF FRANCHISEE ARE MARRIED, THE SPOUSAL ACKNOWLEDGMENT ON THE FOLLOWING PAGE MUST BE SIGNED BY EACH PRINCIPAL OWNERS' SPOUSE.**

**SPOUSAL ACKNOWLEDGMENT: N/A**

I, \_\_\_\_\_ as spouse of a Principal Owner of Franchisee, hereby acknowledge that I have read and understand the Franchise Agreement, and hereby consent and agree to be bound by the following provisions of this Franchise Agreement: (i) the non-competition covenants and non-disclosure covenants contained in Article 22; (ii) the dispute resolution provisions contained in Article 23; and (iii) the governing law provision contained in Section 29.1.

**SPOUSE**

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

Print name: \_\_\_\_\_

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

**SPOUSAL ACKNOWLEDGMENT: N/A**

I, \_\_\_\_\_ as spouse of a Principal Owner of Franchisee, hereby acknowledge that I have read and understand the Franchise Agreement, and hereby consent and agree to be bound by the following provisions of this Franchise Agreement: (i) the non-competition covenants and non-disclosure covenants contained in Article 22; (ii) the dispute resolution provisions contained in Article 23; and (iii) the governing law provision contained in Section 29.1.

**SPOUSE**

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

Print name: \_\_\_\_\_

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

**EXHIBIT A**

**Description of the Franchise Territory**

Exhibit A

## **EXHIBIT B**

### **Schedule of Additional Terms and Conditions**

This Schedule of Additional Terms and Conditions is incorporated in the Franchise Agreement to which it is attached. In the event of any conflict between the Franchise Agreement and this Schedule of Additional Terms and Conditions, the provisions of this Schedule of Additional Terms and Conditions shall govern.

A. [Applicable for sale of a new franchise] The amount of the Franchise Fee shall be \$ \_\_\_\_\_, which is the sum of \$0.20 per person for the population within the Franchise Territory up to 500,000 in population and \$0.10 per person in population beginning at 500,001 and up. The Franchise Fee shall be due and payable: (i) the greater of \$50,000 or 50% of the Franchise Fee in cash upon the signing of this Agreement; and (ii) the remainder in the form of a four year, \_\_\_\_\_ percent (\_\_\_%) promissory note.

B. [Applicable for transfer of an existing franchise] Principal Owner and Franchisee have acquired the subject franchise rights from an existing franchisee, pursuant to a purchase and sale agreement to which PDRI is not a party. PDRI has approved the transfer of franchise rights effective as of the Transfer Date defined in the Tri-Party Agreement executed in connection with this Agreement and subject to the completion of all training requirements and the receipt of all sums due. Franchisee shall pay to PDRI the sum of \$ \_\_\_\_\_, which sum includes a new owner training fee of \$18,000 per person and a transfer fee of \$10,000 for majority transfers and a resale fee of \$ \_\_\_\_\_. PDRI shall provide to Franchisee the new owner training program described in section 8.1. For all purposes of this Agreement, including the Warranty Fund obligations described in section 3.7, the franchise shall be deemed to have been acquired from an existing franchisee. For purposes of determination of Minimum Royalty only, the anniversary date of this Agreement shall be deemed to be \_\_\_\_\_.

C. [Applicable for the renewal of an existing franchise] This Franchise Agreement renews and replaces an existing franchise agreement dated \_\_\_\_\_ (the "Prior Agreement"), but does not extinguish or otherwise release any sums due or other obligation due under the Prior Agreement. As a renewal of an existing franchise agreement, this Franchise Agreement is modified as follows:

1. The Franchise Fee provided in section 2.1 has already been paid.
2. The Royalty Rate shall be: %.
3. For purposes of determining the Minimum Royalty provided in section 3.2, the anniversary date of this Agreement shall be deemed to be \_\_\_\_\_, provided, however, that in calculating the Minimum Royalty, the Minimum Sales Amount shall not be increased above \$ \_\_\_\_\_ (adjusted for changes in the Consumer Price Index).
4. PDRI's contribution of \$1,000 to CSI provided in section 3.7(c) has already been paid.
5. Pursuant to section 6.1 the franchise commenced operation on \_\_\_\_\_.

6. Franchisee has already received the new franchise training provided in Article 8.
7. Franchisee has already received the initial printing and sales and marketing supplies package provided in section 9.2.

B. The current population of the Franchise Territory is deemed to be \_\_\_\_\_.  
Such population is determined as the gross population of \_\_\_\_\_.

**EXHIBIT C**

**Electronic Funds Transfer Authorization**

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

ABA# : \_\_\_\_\_

Acct. No. : \_\_\_\_\_

Acct. Name : \_\_\_\_\_

Effective as of the date of the signature below, \_\_\_\_\_ ("Franchisee") hereby authorizes Paul Davis Restoration, Inc. ("Franchisor") or its designee to withdraw or deposit funds from the above-referenced bank account, electronically or otherwise, to make the following payments to Franchisor under the franchise agreement entered into by and between Franchisor and Franchisee for the franchise located at \_\_\_\_\_ (the "Franchise Agreement"):

(1) all royalty fees; and (2) any other fees that Franchisor may impose under the terms of the Franchise Agreement from time to time. Such withdrawals will occur on a weekly basis, or on such other schedule as Franchisor will specify in writing. Franchisor is also authorized to deposit funds into the above-referenced account, electronically or otherwise, for program work or any other reason. This authorization will remain in full force and effect until terminated in writing by Franchisor. Franchisee will provide Franchisor, in conjunction with this authorization, a voided check from the above-referenced account.

**AGREED:**

FRANCHISEE

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

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

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

## **EXHIBIT D**

### **Confidentiality and Restrictive Covenant Agreement** ***(for managers, key employees, and principals of Franchisee, and any members of their immediate families with access to Franchisor's Trade Secrets)***

In consideration of my being a \_\_\_\_\_ of \_\_\_\_\_ ("Franchisee"), and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I hereby acknowledge and agree that Franchisee has acquired the right from Paul Davis Restoration, Inc. (the "Franchisor") to establish and operate a Paul Davis Restoration® franchise (the "Franchise Business") and the right to use in the operation of the Franchise Business the Franchisor's trade names, trademarks and service marks (the "Marks") and the Franchisor's unique and distinctive format and system relating to the establishment and operation of a Franchise Business (the "Franchise System"), as they may be changed, improved and further developed from time to time in the Franchisor's sole discretion, only at the following authorized and approved location: \_\_\_\_\_ (the "Approved Location").

1. Franchisor possesses certain proprietary and confidential information relating to the operation of the Franchise System, consisting of customer lists; contract forms; appraisal techniques; ideas and data contained in the PDRI's operations manual (the "Operations Manual"); knowledge of sales and profit performance of PDRI's other franchisees; sources of construction suppliers; methods of selecting subcontractors and other methods, techniques, know-how, formulas and data, now existing or hereinafter developed or acquired relating to the operation and franchising of a Paul Davis Restoration franchise, but not including information or techniques in the public domain and generally known and used by general contractors and cleaning service suppliers other than through disclosure by Franchisee. All of the foregoing is hereinafter referred to as the "Trade Secrets."

2. Any and all information, knowledge, know-how, and techniques which the Franchisor specifically designates as confidential shall be deemed to be Trade Secrets for purposes of this Confidentiality and Restrictive Covenant Agreement (the "Agreement").

3. As a \_\_\_\_\_ of the Franchisee, Franchisor and Franchisee will disclose the Trade Secrets to me in furnishing to me the training program and subsequent ongoing training, the Operations Manual and other general assistance during the term of Franchisee's Franchise Agreement (the "Franchise Agreement").

4. I will not acquire any interest in the Trade Secrets, other than the right to utilize them in the operation of the Franchise Business during the term hereof, and the use or duplication of the Trade Secrets for any use outside the System would constitute an unfair method of competition.

5. The Trade Secrets are proprietary, are confidential information, and are disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Trade Secrets and all other information designated by Franchisor as confidential. Unless Franchisor otherwise agrees in writing, I will disclose and/or use the Trade Secrets only in connection with my duties as \_\_\_\_\_ of Franchisee, and will continue not to disclose any such information even after I cease to be in that position and will not use any such

information even after I cease to be in that position unless I can demonstrate that such information has become generally known or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement.

6. Except as otherwise approved in writing by Franchisor, I shall not, while in my position with the Franchisee, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation or limited liability company, own, maintain, engage in, be employed by, or have any interest in any "Competing Business", as that term is defined in the Franchise Agreement, except a Franchise Business operating under the Franchise System and Marks.

7. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

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

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

10. All disputes under this Agreement shall be settled pursuant to the dispute resolution procedures set forth in the franchise agreement entered into between Franchisor and Franchisee that governs the operation of the Franchise Business at the Approved Location. The only way this Agreement can be changed is in writing signed by both Franchisee and me.

Executed the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

EMPLOYEE

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

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

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

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

ACKNOWLEDGED BY FRANCHISEE

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

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

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

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

## **EXHIBIT E**

### **Telephone Number and Internet Agreement**

\_\_\_\_\_  
(Name of Telephone Company)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City, State, Zip)

This TELEPHONE NUMBER AND INTERNET AGREEMENT, ASSIGNMENT AND POWER OF ATTORNEY ("Assignment") is made pursuant to the terms of the Franchise Agreement dated \_\_\_\_\_ ("Agreement") by and between Paul Davis Restoration, Inc. ("Franchisor") and \_\_\_\_\_ ("Franchisee"), authorizing Franchisee to establish and operate a Paul Davis Restoration® franchise (the "Franchise Business") and the right to use in the operation of the Franchise Business the Franchisor's trade names, trademarks and service marks (the "Marks") and the Franchisor's unique and distinctive format and system relating to the establishment and operation of a Franchise Business.

For value received, Franchisee hereby irrevocably assigns to Franchisor the Telephone Listings and Internet Listings (collectively referred to herein as "Listings") described under "A" and "B" below:

A. All telephone listings and numbers used by Franchisee in any printed or internet telephone directory in connection with the operation of the Franchise Business covered by the Agreement, whether now-existing or adopted by Franchisee in the future, (collectively "Telephone Listings") including, without limitation, the following numbers:

Number	Telephone Company/Service Provider	Account Number

B. All email addresses, domain names, social media accounts and comparable electronic identities that use the Marks or any portion of them used by Franchisee in connection with any Internet directory, website or similar item in connection with the operation of the Franchise Business, whether now-existing or adopted by Franchisee in the future, (collectively "Internet Listings") including, without limitation, the following:

Internet Listing	Service Provider	Account Number

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

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

Franchisee appoints Franchisor as Franchisee's attorney-in-fact, to act in Franchisee's place, for the purpose of assigning any Listings covered by the Assignment to Franchisor or Franchisor's designated agent or taking any other actions required of Franchisee under this Agreement. Franchisee grants Franchisor full authority to act in any manner proper or necessary to the exercise of the forgoing powers, including full power of substitution and execution or completion of any documents required or requested by any telephone or other company to transfer such numbers, and Franchisee ratifies every act that Franchisor may lawfully perform in exercising those powers. This power of attorney shall be effective for a period of two (2) years from the date of expiration, cancellation or termination of Franchisee's rights under the Agreement for any reason. Franchisee intends that this power of attorney be coupled with an interest. Franchisee declares this power of attorney to be irrevocable and renounces all rights to revoke it

or to appoint another person to perform the acts referred to in this instrument. This power of attorney shall not be affected by the subsequent incapacity of Franchisee. This power is created to secure performance of a duty to Franchisor and is for consideration.

Signed this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
(Signature)

**[FOR THE PAUL DAVIS RESTORATION CENTRAL OFFICE USE ONLY]**

I hereby assume and agree to pay all charges outstanding, either billed or unbilled, including White pages directory charges, on the telephone number(s) and other Listings listed above.

\_\_\_\_\_  
Date

\_\_\_\_\_  
New Customer's Signature

**EXHIBIT F**

**Legal Entity Information Sheet**

**Franchisee is:**      ☐      *corporation*  
                                 ☐      *limited liability company*

**Name of Legal Entity:** \_\_\_\_\_

**State of Formation:** \_\_\_\_\_      **Date of Formation:** \_\_\_\_\_

**Principal Owner:** \_\_\_\_\_

**List of Shareholders/Members:**

% Interest	Title	Name
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**Conditions:**

The legal entity's activities must be confined exclusively to operating the Franchise Business.

Each shareholder, member, partner or other beneficial owner must personally guarantee Franchisee's performance under the Franchise Agreement.

The legal entity must maintain a current list of all shareholders, members, partners and other beneficial owners, and furnish an updated list to PDRI on request.

The legal entity must provide PDRI with a copy of its articles of organization/articles of incorporation.

**EXHIBIT D**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**  
**COMMERCIAL PROGRAM AGREEMENT**

**NATIONAL COMMERCIAL SALES PROGRAM PARTICIPATION AGREEMENT**  
(Optional Program)

**THIS COMMERCIAL PROGRAM PARTICIPATION AGREEMENT** (this “Agreement”) is made effective as of \_\_\_\_\_, and is by and among PAUL DAVIS RESTORATION, INC., a Florida Corporation (“PDRI”); \_\_\_\_\_, d.b.a. Paul Davis of \_\_\_\_\_ and \_\_\_\_\_, Principal Owners (collectively, “Franchisee”). This Agreement replaces any prior executed National Commercial Sales Program Agreement.

**WHEREAS**, Franchisee is a franchise of Paul Davis Restoration, Inc. and offers restoration services as described in the Franchise Agreement (the “Services”); and

**WHEREAS**, PDRI, has relationships with commercial loss referral sources (“Commercial Clients”) and has establish an Optional Commercial Program for its franchisees; and,

**WHEREAS**, PDRI has delegated to Paul Davis Commercial Division, Inc. (“PDCDI”) the authority to manage the administration, account management and sales of the commercial program, providing referrals for commercial clients through the PDCDI internal program assignment center; and,

**WHEREAS**, these Commercial Clients consist of business premises of all types and sizes, covered by a commercial insurance policy including, but not limited to hospitals, warehouses, strip malls, offices, factories, schools and other government facilities, banks, churches and other entities that require the coordination of service referrals under specific Service Levels; and,

**WHEREAS**, Franchisee understands and acknowledges that it is important to PDRI, the Network and the Brand that commercial losses be handled efficiently and properly according to Service Level Agreements (“SLA”) and that failure to properly handle a commercial loss and can have ramifications for the entire Network; and,

**WHEREAS**, many commercial clients impose contractual duties and SLAs as a condition to referral and the performances of services including, but not limited to, indemnification, insurance, cyber and information security, document retention, compliance requirements for the franchisee and its sub-contractors such as background checks; and,

**WHEREAS**, PDCDI will refer commercial losses to qualified and approved Franchisees who wish to be a part of this Optional program to provide timely and exceptional delivery of services according to Commercial Customer SLAs. To ensure these objectives are met, PDRI and PDCDI will collaborate with a Commercial Advisory Board to provide oversight and advice to PDCDI and the Network on qualification levels and distribution of claims; and,

**WHEREAS**, PDCDI will not make commercial referrals to a Franchisee who has not opted into the Commercial Program and not agreed to abide by the terms of this Agreement and each commercial client's SLA, nor to a franchisee that has not been trained in the handling of commercial losses, unless training (or re-training, if required) has been completed to the sole satisfaction of PDCDI and the Commercial Advisory Board on commercial certification; and,

**WHEREAS**, Franchisee would like to participate in this optional program and receive referrals to perform services for commercial clients;

**NOW, THEREFORE**, for valuable consideration, PDRI and Franchisee agree as follows:

**1. Referrals.**

- 1.1 Franchisee agrees to participate in the Optional Commercial Program administered by Paul Davis Commercial Division, Inc. and Franchisee agrees that it will provide Services for Commercial Client losses referred to and accepted in the manner specified in this Agreement. Franchisee also agrees to comply with all SLAs, compliance and performance standards required by Commercial Clients including the performance of appropriate background checks that are compliant with State and Federal laws. Franchisee understands that commercial program standards and agreements may be changed from time to time by a Commercial Client. Upon notification of such changes, which shall be in writing, Franchisee agrees to comply with such changes.
- 1.2 PDCDI will refer all commercial losses to a Franchisee in their territory and according to the franchisee's training and skills, but a specific number of referrals is not guaranteed. Qualified sub-contractors may be used if approved by Commercial Client requirements.
- 1.3 PDCDI may designate specific procedures for Franchisee to have deemed to have accepted a referral, and such referral and acceptance may be done telephonically or electronically. Such procedures may be subject to change at PDCDI's sole discretion. Acceptance of the referral is an acceptance by Franchisee of all compliance and service requirements for the Commercial Client.
- 1.4 Some Commercial Clients must approve Franchisee as a participant to receive their commercial losses. Franchisee understands that if a Commercial Client has not approved Franchisee on their program or for a specific project, that PDCDI cannot refer such losses until they are approved. PDCDI agrees to provide best efforts to assist Franchisee in becoming eligible for a commercial program. Franchisee acknowledges that participation in the Commercial Program does not guaranty referrals or acceptance on any client program.

- 1.5 Franchisee agrees not to take any legal action, including the filing of a lien, against any Commercial Client or customer, without first notifying PDCDI in writing and obtaining written consent, which shall not be unreasonably withheld.
- 1.6 Franchisee agrees that it will only accept losses for which it has the expertise, training or capacity to perform, notwithstanding the referral by PDCDI. Franchisees participating in this Program shall accept all losses referred to them unless Franchisee believes it is not qualified to handle the loss. Franchisee is prohibited from invoicing the customer directly.

**2. Audit by PDCDI.**

- 2.1 PDCDI may, at its sole discretion, perform audits on specific commercial jobs which were referred under this program. Such review may include review of job file documentation, inspection of work performed which may include a visit to the job site, evaluate the performance of Franchisee given the size, scope and complexity of the loss and Franchisee's ability to continue servicing such losses.
- 2.2 PDCDI, at its sole discretion, may recommend or require that: commercial losses performed by franchisee be reviewed for a probationary period by a commercial loss account manager; Franchisee participate in additional training; size of referrals be reduced to conform with the level of expertise exhibited; and/or, that billing outside of industry standards be adjusted to comply with Commercial Standards.
- 2.3 Franchisee agrees to follow the recommendations of PDCDI staff in order to continue participation in the Program. Failure to comply with Audit requirements may result in suspension of referrals by PDCDI until such corrections are complete.
- 2.4 A Commercial Advisory Board consisting of two (2) NEC members, two (2) PDRI representatives and an additional Commercial Program member, agreed to by the NEC and PDRI members, shall be implemented to resolve disputes arising between the parties arising from the Program standards discussed herein, with the result to be determined in the best interests of the Commercial Customer.

**3. Fees and Reporting**

- 3.1 Franchisee understands and agrees that losses received and invoiced under this program for customers where Franchisee has no prior contractual relationship, are subject to an administrative and dispatch fee. A per loss fee cap of \$50,000/job shall apply. The fee shall be based on the franchisee invoiced amount and calculated according to the following levels, subject to the fee cap:

< \$250k	5%
----------	----

\$251k - \$1.5mm	4%
>\$1.5mm - \$3mm	3%
>\$3mm	2%

This fee is payable to PDCDI and is in addition to royalties and other fees PDRI may be entitled to under the Franchise agreement. Invoiced sales includes all items included on an estimate or work authorization including items paid for directly by the Commercial Client or insurer. In the case of jobs involving multiple franchisees, each franchise will be responsible to report invoiced sales to the extent the franchisee bills, or is paid by, the ultimate customer or insurer. Sales are deemed to be “closed” and reported for royalty purposes at the time when an invoice is generated on the work.

3.2 Dual Relationship. A reduced administrative and dispatch fee of 50% of the fee applicable in section 3.1 above will apply to customer losses that Franchisee has signed through their own efforts, even if PDCDI has commercial relationships with the customer that helped facilitate the signing or retaining of the job. The parties agree that the jobs described herein will be invoiced and collected centrally through PDCDI. Franchisee agrees to notify PDCDI of any losses signed with a customer in order to be subject to this lower fee.

3.3 The 5% administrative dispatch fee shall be waived when Franchisee, through its own efforts, facilitates the signing of a National Account by PDCDI. In addition, Franchisee shall be entitled to a 1% rebate on all work of this National Account performed, invoiced and collected outside of the Franchise territory for a period of four (4) years from the date PDCDI signs the National Agreement. Rebates to be paid upon collection and by the 30<sup>th</sup> day of the month following the end of each quarter and capped at \$20,000 per loss. To remain eligible for the rebate the franchisee must remain active in the account management process unless directed to refrain from such activities in writing by PDCDI. Being active in the management process is defined by the following but may be adjusted from time to time at the discretion of PDCDI:

- Growing the relationship through constant contact and continued marketing that is documented in a PDCDI approved CRM system.
- Providing a monthly report to PDCDI documenting calls, visits, emails, and meetings with Commercial Client.
- Helping to resolve any issues that arise
- Helping with collections when necessary.

3.4 Franchisee agrees to report all commercial losses into RMS (or other Common Software designated by PDRI). Franchisee shall report sales using such forms or in such format as PDRI may specify from time to time. PDRI may at any time modify the required format and content of the sales report. All fees under this Agreement are non-refundable.

- 3.5 Franchisee understands that Commercial Clients may request that PDCDI provide centralized payment for distribution to program participants. Franchisee agrees to accept remittance of payments through such centralized system and authorizes PDCDI to accept and remit payments (Franchisee shall receive payment for losses performed once paid by the Commercial Client), less the administrative fee provided for under this Agreement in section 3.1.
- 3.6 Franchisee agrees that PDCDI may hold and offset any payments due to Franchisee by any amount owed to PDRI and delinquent.
- 3.7 Franchisee understands and agrees that if they wish to participate in, and market the First Priority® program, Franchisee shall be required to register their participation with PDCDI and must adhere to PDRI Brand standards for the use of such Mark.

#### **4. Training and Compliance**

4.1 Franchisee understands that the performance of commercial losses involves specialized training and compliance to laws and service levels which must be met prior to opting into this Optional program. In addition, Franchisee agrees to continuing compliance and training or re-training as required by PDCDI in its sole discretion.

4.2 Training requirements may be changed at the sole discretion of PDCDI.

4.3 Franchisee shall notify PDCDI immediately if the Franchisee receives any commercial job by a Program customer, by any source, that is or expects to exceed the Franchisee's training and certification level. PDCDI at its sole discretion may require that the Franchisee utilize a project manager from another Franchise office that possesses the requisite skill, training and certification in order to complete the assignment.

#### **5. Incorporation by Reference**

5.1 This Agreement incorporates by reference all commercial requirements and service standards of PDRI, PDCDI and its Commercial Clients. This includes any new Agreements, changes, revisions and amendments, which will modify this Agreement, without the requirement of a separate addendum to this Agreement or any formal written amendment. Franchisee's continuing request for referrals and PDCDI's compliance to all Commercial Client requirements as a condition to such referral to Franchisee, is sufficient consideration to support modification of this Agreement without the necessity of a formal amendment. The parties waive any statute, law rule or regulation that may be interpreted as requiring any modification of this Agreement be in writing.

5.2 This Agreement also incorporates by this reference the Franchise

Agreement and all Addendums between the parties. This Agreement does not supercede or replace any terms of the Franchise Agreement, but is meant to be read together and in harmony with the Franchise Agreement. Any terms in conflict, the Franchise Agreement will govern.

## **6. Confidentiality**

- 6.1 Franchisee expressly acknowledges that in the course of its performance under this Agreement, it will have access to certain confidential, copyright, business, trade secret, proprietary and other protected information of Commercial Clients or third parties. Franchisee agrees that it will keep such information strictly confidential and warrants that it will protect and not share any proprietary or Trade Secret information. Franchisee agrees to retain all information belonging to third parties in strictest confidence and will only use the information as necessary to perform the work herein.
- 6.2 Notwithstanding anything to the contrary, Franchisee shall not have an obligation to preserve the confidentiality of any information which:
- (i) has been previously published or is now or becomes public knowledge through no fault of such party;
  - (ii) at the time of disclosure is already in the lawful possession of such party;
  - (iii) was made available to such party, without restriction on disclosure, by a third party not under obligation of confidentiality with respect to the disclosed information;
  - (iv) is independently developed by such party;
  - (v) constitutes know-how which in ordinary course becomes indistinguishable from the know-how of such party;
  - (vi) is in response to a valid order by a court of competent jurisdiction or otherwise required by law.

## **7. Term and Termination**

- 7.1 Franchisee may participate in this Program for as long as they meet all Program requirements. PDCDI reserves the right to suspend job referrals for any Franchisee that does not meet Program or other franchise compliance requirements. Franchisee may terminate this Agreement with five (5) days written notice for any reason.
- 7.2 Following termination of this Agreement, whether it is involuntary for failure to adhere to Program standards, or at the Franchisee's request, PDCDI

reserves the right to refer commercial losses within Franchisee's Territory to other qualified Franchisee to provide commercial services to Commercial Clients (not related to insurance restoration or emergency service) that Franchisee is not qualified (or does not wish) to perform. Cross Territory provisions may apply.

## **8. Independent Contractor Status**

8.1 Franchisee is an independent contractor and is not an agent, partner, joint venturer or employee of PDRI, PDCDI or any Commercial Client. No fiduciary relationship between the parties exists. Franchisee shall have no right to bind or obligate PDRI or PDCDI in any way or represent that Franchisee has any right to do so. Franchisee has the sole ability and control to manage its employees and to make all employment and operational decisions in performing the commercial losses referred by PDCDI. Neither this Agreement nor PDRI's or PDCDI's course of conduct is intended, nor may anything in this Agreement (nor PDRI's or PDCDI's course of conduct) be construed to state or imply that PDRI or PDCDI is the employer of Franchisee's employees and/or independent contractors.

8.2 Franchisee shall be responsible for compliance with all tax laws, workers compensation and all other applicable laws or regulations. Nothing in this Agreement shall be construed or implied to create an agency or partnership relationship between the parties hereto or with any Commercial Clients.

## **9. Indemnification**

The indemnification provisions in Franchisee's Franchise Agreement are incorporated into this Agreement by this reference, as set forth fully herein, and adds all Commercial Clients as additional indemnitees.

## **10. Dispute Resolution**

Any dispute arising out of or related to this Agreement shall be settled by binding arbitration pursuant to Article 23 of the Franchise Agreement and as provided for in Booklet Two of the Operations Manual. Notwithstanding the above, Franchisee agrees that as a condition precedent to Arbitration and in the best interests of maintaining relationships between the parties and with customers, all disputes that arise herein shall be submitted to a Commercial Dispute Resolution process established jointly by PDRI, PDCDI and the NEC. In the event that the dispute cannot be resolved by the Commercial Dispute Resolution process, Franchisee may pursue the Arbitration remedy under the Franchise Agreement.

## **11. Miscellaneous**

11.1 Severability. If any provision of this Agreement or its application to any

person or circumstance is deemed invalid or unenforceable, all other provisions of this Agreement shall remain in full force and effect and will not be affected thereby. In lieu of such invalid or unenforceable provision, a valid, enforceable provision that is as similar in intent to such invalid or unenforceable provision will be automatically inserted into this Agreement. If this is not possible, the unenforceable provision shall be severed from this Agreement.

- 11.2 Governing Law. This Agreement and the rights and obligations granted hereunder shall be governed, interpreted and construed in accordance with the laws of the State of Florida without regard to its conflicts of laws provisions, except as to the United States Trademark Act of 1946 (the Lanham Act, 15 U.S.C. section 1051 et.seq.)
- 11.3 Waiver. The failure of PDRI to strictly enforce any provision herein shall not be construed as a waiver or relinquishment of any right under this Agreement. PDRI shall retain any and all right to strictly enforce any provision of this Agreement, not matter the course of dealing or PDRI's failure to exercise any power given to it hereunder.
- 11.4 Continuing Obligations. All obligations between the parties which expressly and by their nature survive the termination of this Agreement, shall continue in full force and effect subsequent to and notwithstanding its termination, until all such terms are satisfied or expire. These obligations include, without limitation, indemnification, confidentiality, arbitration and choice of law.

**IN WITNESS WHEREOF**, the parties hereto have executed this Addendum effective as of the date first written above.

**PDRI:**  
PAUL DAVIS RESTORATION, INC.

\_\_\_\_\_  
date signed

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

**FRANCHISEE:**

\_\_\_\_\_

\_\_\_\_\_

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

date signed

Print name: \_\_\_\_\_

Its: \_\_\_\_\_

**PRINCIPAL OWNERS:**

\_\_\_\_\_  
date signed

\_\_\_\_\_  
[Owner name]

\_\_\_\_\_  
date signed

\_\_\_\_\_  
[Owner name]

**EXHIBIT E**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**SCHEDULE OF STATE ADMINISTRATORS**  
**AND AGENTS FOR SERVICE OF PROCESS**

## LIST OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for franchising disclosure/registration laws and for service of process. We may not yet be registered to sell franchises in any or all of these states. If a state is not listed, we have not appointed an agent for service of process in that state in connection with the requirements of the franchise laws. There may be states in addition to those listed below in which we have appointed an agent for service of process. There also may be additional agents appointed in some of the states listed. Additionally, we have included the contact information for Paul Davis Restoration, Inc., below:

**Paul Davis Restoration, Inc.**  
**7251 Salisbury Road, Suite 6**  
**Jacksonville, FL 32256**

State	State Agency	Agent for Service of Process
CALIFORNIA	California Commissioner Department of Financial Protection and Innovation: 320 West 4th Street, Suite 750 Los Angeles, CA 90013 (213) 576-7500 Toll Free (866) 275-2677  1515 K Street, Suite 200 Sacramento, CA 95814 (916) 445-7205  1350 Front Street San Diego, CA 92101 (619) 525-4233  One Sansome St., #600 San Francisco, California 94104 (415) 972-8559	California Commissioner
CONNECTICUT	State of Connecticut Department of Banking Securities & Business Investments Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8230	Banking Commissioner
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722	Commissioner of Securities State of Hawaii 335 Merchant Street Honolulu, Hawaii 96813 (808) 586-2722
ILLINOIS	Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	Illinois Attorney General
INDIANA	Indiana Secretary of State Securities Division, E-111 302 Washington Street Indianapolis, Indiana 46204 (317) 232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531

State	State Agency	Agent for Service of Process
MARYLAND	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360	Maryland Securities Commissioner
MICHIGAN	Consumer Protection Division Michigan Department of Attorney General 525 W. Ottawa Street, G. Mennen Williams Building, 1st Floor Lansing, Michigan 48933 (517) 373-7117	Corporations Division Bureau of Commercial Services Department of Labor and Economic Growth P.O. Box 30054 Lansing, Michigan 48909
MINNESOTA	Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600	Minnesota Commissioner of Commerce
NEW YORK	Office of the Attorney General Investor Protection Bureau 28 Liberty Street, 15th Floor New York, NY 10005 Tel: 212-416-8222	Attention: New York Secretary of State New York Department of State One Commerce Plaza, 99 Washington Avenue, 6th Floor Albany, NY 12231-0001 (518) 473-2492
NORTH DAKOTA	North Dakota Securities Department State Capitol, Fifth Floor, Dept. 414 600 East Boulevard Avenue Bismarck, North Dakota 58505 (701) 328-4712	North Dakota Securities Commissioner
RHODE ISLAND	Securities Division Department of Business Regulation, Bldg 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9582	Director of Rhode Island Department of Business Regulation
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563	Director of South Dakota Division of Securities
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051	Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733
WASHINGTON	Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, Washington 98507-9033 (360) 902-8760	Director, Department of Financial Institutions Securities Division 150 Israel Road S.W. Tumwater, Washington 98501
WISCONSIN	Division of Securities Department of Financial Institutions 201 W. Washington Ave., 3rd Floor Madison, Wisconsin 53703 (608) 266-1064	Administrator, Division of Securities Department of Financial Institutions 201 W. Washington Ave., 3rd Floor Madison, Wisconsin 53703

**EXHIBIT F  
TO THE PAUL DAVIS RESTORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**STATE ADDENDA**

**PAUL DAVIS RESTORATION, INC.**  
**CALIFORNIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

1. Neither the franchisor nor any person in Item 2 of the disclosure document is subject to any currently effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such person from membership in that association or exchange.

2. The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the disclosure document.

3. The Franchise Agreement requires binding arbitration. The arbitration will occur at a site chosen by the arbitrators with the costs being borne by each party except where a party fails to comply with the arbitration provisions of the Franchise Agreement, in which case, that party shall be liable to the other party for all costs and attorneys' fees incurred by the other party to enforce the arbitration provision.

4. The following paragraph is added to the end of Item 6 of the disclosure document

A. Liquidated Damages Provision:

If the Franchise Agreement contains any liquidated damage clauses, California Civil Code Section 1671 may render them unenforceable.

5. The following paragraph is added at the end of Item 10 of the disclosure document:

We will comply with all appropriate laws governing any direct financing offered by us to you including, if applicable, the California Finance Lenders Law.

6. The following paragraphs are added at the end of Item 17 of the disclosure document:

A. Termination and Non-Renewal:

California Business and Professional Code Sections 200000 through 20043 provide rights to franchisees concerning termination or non-renewal of a franchise. If the Franchise Agreement contains any provision that is inconsistent with the law, the law, as amended from time to time, will control.

B. Post Termination Non-Competition Covenants:

Any non-competition and non-solicitation agreement containing a covenant not to compete that extends beyond the termination/expiration of the franchise, may not be enforceable under California law.

C. Liquidated Damages Provision:

If the Franchise Agreement contains any liquidated damage clauses, California Civil Code Section 1671 may render them unenforceable.

D. Termination upon Insolvency, Bankruptcy or Reorganization:

Where the Franchise Agreement provides for termination upon insolvency, bankruptcy or reorganization, such a provision might not be enforceable under California Law.

E. Material Modifications:

Section 31125 of the Franchise Investment Law requires us to give you a disclosure document approved by the Commissioner of the Department of Financial Protection and Innovation before we ask you to consider a material modification of your Franchise Agreement.

7. The following paragraph is added at the end of Item 19 of the disclosure document:

**NOTICE REQUIRED BY THE STATE OF CALIFORNIA**

The financial performance representations do not reflect the costs of sales, operating expenses or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchised business. Franchisees or former franchisees, listed in the disclosure document, may be one source of this information.

**PAUL DAVIS RESTORATION, INC.**  
**CALIFORNIA ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF CALIFORNIA ARE HEREBY AMENDED AS FOLLOWS:**

1. Section 31125 of the California Corporation Code requires the Franchisor to give you a disclosure document, in a form and containing such information as the Commissioner may by rule or order require, prior to solicitation of a proposed material modification of an existing franchise.
2. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.
3. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec 101 et seq.).
4. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This may not be enforceable under California law.
5. The Franchise Agreement requires binding arbitration. This provision may not be enforceable under California law.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**HAWAII ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

THESE FRANCHISES HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN (7) DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN (7) DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE OFFERING CIRCULAR, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS OFFERING CIRCULAR CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

**PAUL DAVIS RESTORATION, INC.  
HAWAII ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF HAWAII ARE HEREBY AMENDED AS FOLLOWS:**

No release language set forth in the Franchise Agreement shall relieve PDRI or any other party, directly or indirectly, from liability imposed by the laws concerning franchising in the State of Hawaii.

Article 17 of the Franchise Agreement is hereby supplemented with the following provision (Section 17.3 in Franchise Agreement):

Hawaii Law. Pursuant to Section 482E-6(3) of the Hawaii Revised Statutes, for so long as such statute remains in effect and so provides, upon termination or refusal to renew the franchise, Franchisee shall be compensated for the fair market value, at the time of termination or expiration of the franchise, of Franchisee's inventory, supplies, materials and furnishings purchased from the Franchisor or a supplier designated by the Franchisor, exclusive of personalized materials which have no value to the Franchisor. If the Franchisor refuses to renew a franchise for the purpose of converting the franchised business to one owned by the Franchisor, the Franchisor, in addition to the remedies provided in this paragraph, shall compensate Franchisee for the loss of goodwill. The Franchisor may deduct from such compensation reasonable costs incurred in removing, transporting and disposing of Franchisee's inventory, supplies, materials and furnishings pursuant to this paragraph, and may offset from such compensation any moneys due to the Franchisor.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**ILLINOIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**NOTICE TO PROSPECTIVE FRANCHISEES IN THE STATE OF ILLINOIS**

The following are revisions to Item 17 of the disclosure document:

The Illinois Franchise Disclosure Act applies. The conditions under which the franchise can be terminated and the rights upon non-renewal may be affected and are governed by Illinois Compiled Statutes 1992, Chapter 815, Section 705/18 through 705/20.

Illinois law governs the franchise agreement between the parties to this franchise.

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside of Illinois is void. However, a franchise agreement may provide for arbitration in a venue outside of Illinois.

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act, or any other law of Illinois, is void.

**PAUL DAVIS RESTORATION, INC.  
ILLINOIS ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF ILLINOIS ARE HEREBY AMENDED AS FOLLOWS:**

1. The Franchisor and Franchisee hereby acknowledge that this Agreement shall be governed by Illinois law.
2. Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act or any other law of Illinois is void.”
3. The conditions under which the Franchised Business may be terminated and the Franchisee’s rights upon non-renewal are governed by Illinois Compiled Statutes 1992, Chapter 815, Section 705/18 through 705/20.
4. With respect to any agreement executed and operational in the State of Illinois, any governing law or choice of law clause granting authority to a state other than Illinois is hereby amended to grant authority of the Illinois Franchise Disclosure Act.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**INDIANA ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF INDIANA ARE HEREBY AMENDED AS FOLLOWS:**

1. Any agreement executed in and operative within the State of Indiana shall be governed by applicable Indiana franchise laws and the right of any franchisee to institute a civil action or initiate arbitral proceedings within the State of Indiana shall not be deemed to have been abridged in any form or manner by any provisions contained in this Agreement.
2. In compliance with Indiana Code 12-2-2.7-1(9), any provisions in this Franchise Agreement relating to non-competition upon the termination or non-renewal of the Franchise Agreement shall be limited to a geographic area not greater than the Franchise Area granted in this Franchise Agreement and shall be construed in accordance with Indiana Code 23-2-2.7-1(9).
3. Indiana Code section 23-2-2.7-1(10) prohibits the choice of an exclusive forum other than Indiana.
4. Indiana Code section 23-2.2.7-1(10) prohibits the limitation of litigation. The Indiana Secretary of State has interpreted this section to prohibit provisions in contracts regarding liquidated damages. Accordingly, any provisions in the Franchise Agreement regarding liquidated damages may not be enforceable.
5. In compliance with Indiana Code 23-2-2.7-1(10), any inference contained in this Franchise Agreement to the effect that the Franchisor "is entitled" to injunctive relief shall, when applicable to a Franchise Agreement executed in and operative within the State of Indiana, hereby be deleted, understood to mean and replace the words "may seek".
6. Indiana Code section 23-2-2.5 and 23-2-2.7 supersedes the choice of law clauses of the Franchise Agreement.
7. Indiana Code section 23-2.2.7-1 makes it unlawful for a franchisor to terminate a franchise without good cause or to refuse to renew a franchise on bad faith.
8. Any reference contained in this Franchise Agreement to a prospective franchisee's "exclusive Franchise Area" shall, in any Franchise Agreement executed in and operative within the State of Indiana, hereby be deleted and replaced with the words "non-exclusive Franchise Area".
9. In compliance with Indiana Code 23-2-2.7-1(5), any requirement that the Franchisee must execute a release upon termination of this Agreement shall not be mandatory and is hereby made discretionary. However, Franchisee shall execute all other documents necessary to fully rescind all agreements between the parties under this Agreement.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**MARYLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

1. Item 17 of the disclosure document shall be amended as follows:

The general release required as a condition of the sale of an existing franchise by a franchisee shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law. Despite the provisions of Item 17, the franchise may sue in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

**PAUL DAVIS RESTORATION, INC.  
MARYLAND ADDENDUM TO THE FRANCHISE AGREEMENT**

**THE FRANCHISE AGREEMENT TO WHICH THIS ADDENDUM IS ATTACHED AND INCORPORATED IS HEREBY AMENDED AS FOLLOWS:**

1. Despite anything to the contrary contained in the Franchise Agreement, the general release required as a condition of the resale of an existing franchise by a franchisee shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
2. Despite the provisions of Article 29 and Article 23, the Franchisee may sue in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
3. The acknowledgements and representations contained in the Franchise Agreement are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred by PDRI under the Maryland Franchise Registration and Disclosure Law.

**The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.**

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**MICHIGAN ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**NOTICE TO PROSPECTIVE FRANCHISEES IN THE STATE OF MICHIGAN**

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

(A) A prohibition on the right of a franchisee to join an association of franchisees.

(B) A requirement that a franchisee assent to release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(C) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(D) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are subject to compensation. This subsection applies only if: (1) the term of the franchise is less than 5 years and (2) the franchisees is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of the franchisor's intent not to renew the franchise.

(E) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(F) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(G) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(1) the failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

(2) the fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(3) the unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(4) the failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

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

ANY QUESTIONS REGARDING THIS NOTICE SHOULD BE ADDRESSED TO:

DEPARTMENT OF ATTORNEY GENERAL  
CONSUMER PROTECTION DIVISION  
670 LAW BUILDING, 525 W. OTTAWA STREET  
LANSING, MICHIGAN 48913  
Telephone (517) 373-7117

## **NOTICE TO PROSPECTIVE FRANCHISEES IN THE STATE OF MINNESOTA**

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. Sec. 80c. 14, subsections 3, 4 and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.

Notwithstanding anything to the contrary in the Franchise Agreement, pursuant to Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J, the Franchisor is prohibited from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreement 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.

Notwithstanding anything contained in the Franchise Agreement to the contrary, the Franchisor shall protect the Franchisee's right to use the trademarks, service marks, trade names, logotypes, symbols, and other commercial symbols belonging to the Franchisor and which the Franchisee has been permitted to use under the Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**  
**MINNESOTA ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF MINNESOTA ARE HEREBY AMENDED AS FOLLOWS:**

1. Any reference to liquidated damages or termination penalties contained in this Franchise Agreement, shall be deleted and replaced with the words "actual damages".
2. Notwithstanding anything contained in the Franchise Agreement to the contrary, the Franchisor shall protect the Franchisee's right to use the trademarks, service marks, trade names, logotypes, symbols, and other commercial symbols belonging to the Franchisor and which the Franchisee has been permitted to use under the Franchise Agreement.
3. With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. Sec. 80c. 14, Subds. 3, 4 and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.
4. Any reference contained in the Franchise Agreement to the effect that the Franchisor "is entitled" to injunctive relief, or any imputation that the Franchisee can waive any rights under any law shall, in any Franchise Agreement entered into in the State of Minnesota be deleted and replaced with the words, "may seek".
5. Notwithstanding anything to the contrary in the Franchise Agreement, pursuant to Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J, the Franchisor is prohibited from requiring litigation to be conducted outside Minnesota. In addition, nothing in the offering circular or agreement 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. With respect to franchises governed by Minnesota law, Franchisor will comply with Minn. Rule 2860.4400D which prohibits a franchisor from requiring a franchisee to assent to a general release as a requirement to renew or extend.  
The undersigned agree and acknowledge that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**NEW YORK ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**NOTICE TO PROSPECTIVE FRANCHISEES IN THE STATE OF NEW YORK**

ALTHOUGH THESE FRANCHISES HAVE BEEN ACCEPTED FOR FILING, SUCH FILING UNDER GENERAL BUSINESS LAW, ART. 33 OF THE STATE OF NEW YORK DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OF ENDORSEMENT BY THE NEW YORK STATE DEPARTMENT OF LAW THAT THE INFORMATION PROVIDED HEREIN IS TRUE.

THE DEPARTMENT'S REVIEW DID NOT INCLUDE A DETAILED EXAMINATION OF THE MATERIALS SUBMITTED. A FALSE, INCOMPLETE, INACCURATE OR MISLEADING STATEMENT MAY CONSTITUTE A VIOLATION OF BOTH FEDERAL AND STATE LAW, AND SHOULD BE REPORTED TO BOTH THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND THE NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, NEW YORK, NEW YORK 10271. GENERAL BUSINESS LAW, ARTICLE 33 OF THE STATE OF NEW YORK MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WHICH IS SUBJECT TO REGISTRATION WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE A COPY OF THE OFFERING PROSPECTUS, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE AT THE EARLIER OF (a) THE FIRST PERSONAL MEETING BETWEEN THE FRANCHISOR OR ITS AGENT AND THE PROSPECTIVE FRANCHISEE, (b) AT LEAST TEN BUSINESS DAYS PRIOR TO THE EXECUTION OF A BINDING FRANCHISE OR OTHER AGREEMENT OR (c) AT LEAST TEN DAYS PRIOR TO THE RECEIPT OF ANY CONSIDERATION IN CONNECTION WITH THE SALE OR PROPOSED SALE OF A FRANCHISE.

The following are revisions to Item 3 of the disclosure document:

Other than the matters described above, neither PDRI nor any person identified in Item 2: (1) has any pending administrative, criminal or material civil action alleging a violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (2) has been convicted of a felony or pleaded *nolo contendere* to a felony charge or, within the ten year period immediately preceding the application for registration, has been convicted of a misdemeanor or pleaded *nolo contendere* to a misdemeanor charge or been held liable in a civil action by final judgment or been the subject of a material complaint or other legal proceeding if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; or (3) is subject to any injunctive or restrictive order or decree relating to franchises or under any Federal, State or Canadian franchise, securities, antitrust, trade

regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency.

The following are revisions to Item 4 of the disclosure document:

Neither PDRI, nor its affiliates, officers, or directors during the 10 year period immediately preceding the date of the offering prospectus have (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one (1) year after the officer or general partner of the franchisor held this position in the company or partnership.

The following are revisions to Item 5 of the disclosure document:

The Initial Franchise Fee is to be used for the purpose of sales development, training, and marketing costs as set forth in Item 7.

The following are revisions to Item 17(d) of the disclosure document:

The franchisee may terminate the agreement upon any grounds available by law.

**PAUL DAVIS RESTORATION, INC.  
NEW YORK ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF NEW YORK ARE HEREBY AMENDED AS FOLLOWS:**

The foregoing choice of law should not be considered a waiver of any right conferred upon Franchisor or upon Franchisee by the General Business Law of the State of New York, Article 33.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**NORTH DAKOTA ADDENDUM TO THE FRANCHISE AGREEMENT**

For franchises and franchisees subject to the North Dakota Franchise Investment Law, the following information supersedes on supplements, as the case maybe, the corresponding disclosures in the main body of the text of the Paul Davis Restoration, Inc. Franchise Disclosure Document.

1. Item 17 is amended by the addition of the following language to the original language that appears therein;

(a) Covenants not to compete upon termination or expiration of a franchise agreement are generally unenforceable in North Dakota, except in certain instances as provides by law.

(b) Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of North Dakota is void with respect to any cause of action which is otherwise enforceable in North Dakota.

(c) Any provision in the Franchise Agreement which requires a franchisee to waive his or her right to a jury trial has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(d) Any provision requiring a franchisee to sign a general release upon renewal of the franchise agreement has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(e) Any provision in the Franchise Agreement requiring a franchisee to agree to the arbitration or mediation of disputes at a location that is remote from the site of the franchisee's business has been determined to be unfair, unjust and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(f) Apart from civil liability as set forth in Section 51-19-12 of the N.D.C.C., which is limited to violations of the North Dakota Franchise Investment Law (registration and fraud), the liability of the franchisor to a franchisee is based largely on contract law. Despite the fact that those provisions are not contained in the franchise investment law, those provisions contain substantive rights intended to be afforded to North Dakota residents and it is unfair to franchise investors to require them to waive their rights under North Dakota Law.

(g) Any provision in the Franchise Agreement requiring that the Franchise Agreement be construed according to the laws of a state other than North

Dakota are unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(h) Any provision in the Franchise Agreement requiring a franchisee to consent to termination or liquidated damages is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

(i) Any provision in the Franchise Agreement requiring a franchisee to consent to a waiver of exemplary and punitive damages is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**RHODE ISLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

For franchises and franchisees subject to the Rhode Island statutes and regulations, the following information supersedes or supplements, as the case may be, the corresponding disclosures in the main body of the text of the Paul Davis Restoration, Inc.'s Franchise Disclosure Document.

Item 17:

1. §19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in the 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."
2. The Rhode Island Franchise Investment Act requires a franchisor to deliver a copy of a disclosure document reflecting all material changes together with a copy of all proposed agreements relating to the sale of the franchise at the earlier of: (i) the prospective franchisee's first personal business meeting with the franchisor which is held for the purpose of discussing the sale or possible sale of the franchise, or (ii) ten business days prior to the execution of an agreement or payment of any consideration relating to the franchise relationship.

**PAUL DAVIS RESTORATION, INC.  
RHODE ISLAND ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF RHODE ISLAND ARE HEREBY AMENDED AS FOLLOWS:**

1. Pursuant to the Rhode Island Franchise Investment Act, the choice of jurisdiction and venue provisions of this Franchise Agreement shall be governed by Section 19-28.1-14 of the Act.

2. Pursuant to Section 19-28.1-15 of the Act, any condition, stipulation or provision in this Franchise Agreement requiring a franchisee to waive compliance with or relieving a person of a duty of liability imposed by or a right provided by this Act or a rule or order under this Act is void. An acknowledgment provision, disclaimer or integration clause or a provision having a similar effect in the Franchise Agreement does not negate or act to remove from judicial review any statement, misrepresentations or action that would violate this Act or a rule or order under this Act. This section shall not affect the settlement of disputes, claims or civil lawsuits arising or brought under this Act.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**SOUTH DAKOTA ADDENDUM TO THE FRANCHISE AGREEMENT**

Neither Paul Davis Restoration Inc. its Parent Corporation, its Predecessor nor any person identified in Item 2 has any material arbitration proceeding pending, or has during the 10-year period immediately preceding the date of this Disclosure Document been a party to concluded material arbitration proceedings.

Although the Franchise Agreement requires all arbitration proceedings to be held where the American Arbitration Association designates, the site of any arbitration started pursuant to the Franchise Agreement will be at a site mutually agreed upon by you and us.

We may not terminate the Franchise Agreement for a breach, for failure to meet performance and quality standards and/or for failure to make royalty payments unless you receive thirty (30) days prior written notice from us and you are provided with an opportunity to cure the defaults. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of South Dakota.

The laws of the State of South Dakota will govern matters pertaining to franchise registration, employment, covenants not to compete, and other matters of local concern; but as to contractual and all other matters, the Franchise Agreement will be subject to the applications, construction, enforcement and interpretation under the governing law of Florida.

Any provision in the Franchise Agreement restricting jurisdiction or venue to a forum outside of the State of South Dakota or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under the South Dakota Franchise Act.

Any provision that provides that the parties waive their right to claim punitive, exemplary, incidental, indirect, special or consequential damages may not be enforceable under South Dakota law.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**VIRGINIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Paul Davis Restoration, Inc. for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure: The following statements are added to Item 17:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

**PAUL DAVIS RESTORATION, INC.**  
**WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

The State of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

**PAUL DAVIS RESTORATION, INC.**  
**WASHINGTON ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE STATE OF WASHINGTON ARE HEREBY AMENDED AS FOLLOWS:**

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

**PAUL DAVIS RESTORATION, INC.**

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

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

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

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

**FRANCHISEE**

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

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

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

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

**PAUL DAVIS RESTORATION, INC.**  
**WISCONSIN ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT**

**NOTICE TO PROSPECTIVE FRANCHISEES IN THE STATE OF WISCONSIN**

IN THE STATE OF WISCONSIN CHAPTER 135 OF THE WISCONSIN FAIR DEALERSHIP LAW GOVERNS THIS AGREEMENT. YOU MAY WANT TO REVIEW THIS LAW.

For franchises and Franchisees subject to the Wisconsin Fair Dealership Law, the following information supersedes or supplements, as the case may be, the corresponding disclosures in the main body of the text of the Paul Davis Restoration, Inc. Wisconsin Franchise Disclosure Document.

Item 17.

For Wisconsin Franchisees, ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of the Franchise Agreement or a related contract between Franchisor and Franchisee inconsistent with the Law.

**PAUL DAVIS RESTORATION, INC.  
WISCONSIN ADDENDUM TO THE FRANCHISE AGREEMENT**

**ALL FRANCHISE AGREEMENTS EXECUTED IN AND OPERATIVE WITHIN THE  
STATE OF WISCONSIN ARE HEREBY AMENDED AS FOLLOWS:**

The Franchisor and Franchisee hereby acknowledge that the Franchise Agreement shall be governed by The Wisconsin Fair Dealership Law (Wisconsin Statutes, 1979-1980, Title XIV-A, Chapter 135, Sections 135.01 through 135.07) which makes it unlawful for a franchisor to terminate, cancel or fail to renew a franchise without good cause, as well as providing other protections and rights to the franchisee. To the extent anything in the Franchise Agreement is contrary to the laws in the State of Wisconsin, said laws shall prevail.

The undersigned hereby acknowledge and agree that this addendum is hereby made part of and incorporated into the foregoing Franchise Agreement.

**PAUL DAVIS RESTORATION, INC.**

**FRANCHISEE**

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

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

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

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

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

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

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

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

**EXHIBIT G**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**PROMISSORY NOTE**

## PROMISSORY NOTE

\$\_\_\_.00

\_\_\_\_\_, 20\_\_\_\_  
Jacksonville, Florida

FOR VALUE RECEIVED, the undersigned (collectively, the "Maker") individually, jointly and severally promises to pay to the order of Paul Davis Restoration, Inc. ("Holder") at 7251 Salisbury Road, Suite 6, Jacksonville, FL 32256, or at such other address as the Holder of this Note may designate in writing from time to time, the principal sum of \_\_\_\_\_ AND 00/100 DOLLARS (\$\_\_\_\_\_.00) together with interest thereon of \_\_\_\_\_ percent (7%) per annum, to be paid as follows:

monthly installments of \$\_\_\_\_\_ commencing on \_\_\_\_\_ 1, 20\_\_\_\_, and continuing on the first (1<sup>st</sup>) day of each and every calendar month thereafter until the entire principal balance is paid in full.

If not paid in full sooner, the entire principal balance hereof, together with accrued and unpaid interest and all other sums due hereunder, shall be due and payable in full on \_\_\_\_\_ 1, 20\_\_\_\_. All payments hereunder are to be credited first to interest accrued and the balance to the reduction of principal. Payment shall be made to Holder via Electronic Funds Transfer unless otherwise agreed by the parties in writing. Maker shall cooperate with all administrative requirements to allow such a transfer as outlined herein.

This Note is being made in connection with a franchise agreement of even date herewith, as amended (the "Franchise Agreement"), between Holder and Maker. Maker acknowledges and agrees that the interest of Maker in the Franchise Agreement is directly related to this Note and that an event of a default under this Note shall also constitute an event of default under the Franchise Agreement. The non-payment when due of any installment under this Note shall constitute an Event of Default with respect to this Note. In addition, a default under the terms of the Franchise Agreement or a failure to abide by the terms of the Paul Davis Operations Manual shall be an Event of Default under this Note.

If an Event of Default occurs, or if any interest in the Franchise Agreement, whether in whole or in part, is sold to a third party, the Holder of this Note may declare the entire unpaid principal amount of this Note to be immediately due and payable and may proceed to protect its rights in the manner provided by applicable law. If an Event of Default occurs, the Maker shall pay all costs and expenses including reasonable attorney's fees and costs incurred by the Holder in connection with the collection of, or with the appeal of any proceeding respecting the payment or enforceability of this Note. Upon default, principal and interest shall both bear interest at the maximum legal rate until paid in full.

This Note may be prepaid in whole or in part at any time without penalty or premium. All persons now or at any time liable for payment of this Note hereby waive presentment, protest, notice of protest, and notice of dishonor. Each Maker expressly consents to any extensions and renewals, in whole or in part, and to all delays in time of payment or other performance that the Holder of this Note may grant at any time, and from time to time without limitation, and without any notice or further consent of the Maker. This Note shall be governed by and construed and enforced according to the laws of the State of Florida.

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed as of the day and year first above written.

MAKER:

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

\_\_\_\_\_  
(corporate name)

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

**EXHIBIT H**  
**TO THE PAUL DAVIS RESTORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**COMPLIANCE CERTIFICATION**

**PAUL DAVIS RESTORATION, INC.**  
**COMPLIANCE CERTIFICATION**

Before you sign the Franchise Agreement, we want to be sure that you understand your risks and responsibilities as a franchisee, as well as to determine whether any statements or promises were made to you that the franchisor has not authorized and that may be untrue, inaccurate, or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed the Franchise Agreement and each exhibit attached to it?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. Are there any provisions of the Franchise Agreement and/or any exhibit which you do not understand? (If yes, please specify in question 13.)

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Have you received and personally reviewed the franchisor's Franchise Disclosure Document ("FDD")?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. Did you sign a receipt for the FDD indicating the date you received it?

Yes \_\_\_\_\_ No \_\_\_\_\_

5. Have you had this FDD in your possession for at least fourteen calendar days prior to today?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Is there any information contained in the FDD which you do not understand? (If yes, please specify in question 13.)

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Have you reviewed the lists of franchisees contained in FDD Item 20 and contacted as many of them as you felt necessary?

Yes \_\_\_\_\_ No \_\_\_\_\_

8. Have you carefully reviewed the earnings information contained in FDD Item 19, including all of the explanatory notes?

Yes \_\_\_\_\_ No \_\_\_\_\_

9. Has any employee or other person speaking on behalf of the franchisor made any statement or promise concerning:

- a. the sales or earnings of prior years' franchisees which is different from or inconsistent with the information contained in FDD Item 19?

Yes \_\_\_\_\_ No \_\_\_\_\_

- b. the amount of sales or earnings that you personally may achieve as a franchisee?

Yes \_\_\_\_\_ No \_\_\_\_\_

- c. the costs you may incur in operating the franchised business or being a franchisee that is different from or inconsistent with the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

- d. the advertising, training, support service or assistance that we will furnish to you that is different from or inconsistent with the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

10. Do you understand that during the term of your franchise agreement, you will need to devote maximum personal efforts to properly operate your business?

Yes \_\_\_\_\_ No \_\_\_\_\_

11. Do you understand that your success or failure as a franchisee will depend on your skills, effort, and commitment?

Yes \_\_\_\_\_ No \_\_\_\_\_

12. Have you discussed the benefits and risks of becoming a franchisee with an attorney, accountant, or other professional advisor?

- a. Yes \_\_\_\_\_ No \_\_\_\_\_

If no, do you want more time to do so?

- b. Yes \_\_\_\_\_ No \_\_\_\_\_

13. If you have answered “Yes” to questions 2, 6, 9a-d or 12b or “No” to questions 10 or 11, please provide a full explanation of each such answer. (Attach additional pages, if necessary, and refer to them below.)

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

**PROSPECTIVE FRANCHISEE**

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

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

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

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

**EXHIBIT I  
TO THE PAUL DAVIS RESTORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**PAUL DAVIS RESTORATION OPERATIONS MANUAL  
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## Paul Davis Operations Manual

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**EXHIBIT J  
TO THE PAUL DAVIS RESTORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**FRANCHISE RESALE PROCEDURES AND AGREEMENTS**

**PAUL DAVIS RESTORATION, INC.**  
**7251 Salisbury Road, Suite 6**  
**Jacksonville, FL 32256**  
**Telephone (904) 737-2779**

**FRANCHISE REALES – INFORMATION FOR PURCHASERS**

Paul Davis Restoration, Inc., (“PDRI” or the “Franchisor”) has prepared this document for individuals considering purchasing an existing Paul Davis Restoration (“PDR”) franchise. In this document the acquisition of an existing franchise from the franchisee owner (the “Seller”) is referred to as a “resale.” The purposes of this document are to explain the role of PDRI in a resale transaction and to inform you (the “Purchaser”) of the steps necessary to obtain PDRI’s consent to the transfer of the franchise rights from the Seller to you. If you have any additional questions about the franchise resale process, please contact our General Counsel, Laura L. Ferrante, at 904-737-2779, extension 219, or [lferrante@pauldavis.com](mailto:lferrante@pauldavis.com).

In a resale, the Purchaser buys the franchise rights for an existing franchise directly from the Seller and not from PDRI. The purchase of a franchise may take one of two forms. In an “asset purchase” the Purchaser acquires the franchise rights and may also acquire a variety of other assets, such as equipment, vehicles, inventory, work-in-progress, receivables, goodwill, and leasehold interests, from the Seller’s company but does not acquire ownership of the Seller’s company. In a “stock transfer” the Purchaser acquires the stock or other ownership interests in the Seller’s company, which in turn owns the franchise rights and other assets. You should consult with your attorney about which form of transaction would serve you best. However, one issue you may wish to consider is that some insurers and other sources of business such as Third Party Administrators may be reluctant to do business with a brand new company and therefore a “stock transfer” purchase of an on-going company may be advantageous.

You and the Seller must negotiate a franchise purchase and sale agreement that specifies the assets being sold, the price, terms of sale, and other matters concerning the resale. The purchase of an existing franchise, like the purchase of any business, is a complex transaction. PDRI encourages you to consult with your attorney and other professional business advisors as you investigate this opportunity. It is the responsibility of you and your advisors to perform your due diligence in investigating the business you are buying and to negotiate the price and terms of sale. You should require that the Seller provide you with the information you need to conduct your due diligence. During this process you will be in contact with the Seller or the Seller’s representatives, such as the Seller’s broker, attorney or other agents. You should be aware that the Seller and the Seller’s representatives do not represent PDRI and cannot make any representations or commitments on behalf of PDRI.

All Purchasers are required to complete the PDRI training program for new owners. The new owner training program consists of four weeks of new owner school conducted at PDRI’s training facility in Jacksonville, Florida, and one week of new owner field training conducted at the franchise location. The cost of the new owner training program is \$18,000 per person. The training fee must be paid to PDRI at the earlier of (i) the closing of the purchase transaction, or (ii) seven days prior to the first day of new owner school.

PDRI conducts new owner schools three or four times a year. Contact PDRI for the schedule and availability of upcoming classes. Field training is scheduled, subject to the availability of PDRI field trainers, as soon as possible following the completion of new owner school. All class schedules are subject to change.

You will not be allowed to operate the franchise until you have completed the new owner training program. There are two options for transitioning the franchise from the Seller to the Purchaser. The option PDRI recommends is for you to attend new owner school before you close on the purchase of the franchise. In order to attend training you will need to submit a final signed purchase and sale agreement to PDRI, pay the non-refundable transfer and training fees, and execute a new franchise agreement (which will automatically terminate if the purchase is not completed). This option will allow you to close on the purchase when you have completed school and are ready to operate the business. Alternatively, you may close on the purchase of franchise prior to attending new owner school. However, in this case you will need to hire the Seller or some other qualified individual to operate the franchise for you until you have completed the training program.

The franchise you are purchasing may engage in some of the optional franchise programs. These optional programs have their own requirements such as specialized training and other operational requirements. In order for the franchise to continue to participate in an optional franchise program you will need to meet the program requirements.

In addition to providing training for all Purchasers, PDRI must also exercise its right to consent to all transfers. The transfer approval process is described below. A non-refundable transfer fee of \$10,000 (a lesser amount may apply to some older franchise agreements or to the transfer of a minority interest) is required for all transfers, along with a re-sale fee equal to 2.5% of the sale price to a maximum of \$25,000.

Prior to the approval of a transfer, PDRI reviews both the proposed transaction and the qualifications of the proposed Purchaser. As part of our review of the proposed transaction, PDRI will review the franchise purchase and sale agreement. However, the purpose of our review is only to protect the interests of PDRI and the PDR network. You and your advisors must determine if the proposed transaction is in your best interest.

In order to assess the qualification of potential PDR franchise owners, we require that every candidate to purchase a franchise visit our office in Jacksonville, Florida, and submit the personal information listed below. During your visit to Jacksonville, you will have personal interviews with various members of our staff and senior managers. In addition to visiting Jacksonville and the franchise you are considering purchasing, we highly recommend you visit or contact by telephone other PDR franchises. You will also need to submit the following documents to PDRI:

1. Confidential Information Form ("CIF")
2. Authorization to Obtain Credit Information ("Credit Authorization")
3. Personality Profile
4. Franchise Purchase and Sale Agreement
5. Shareholder (Partnership) Agreement (if more than one owner)
6. Business Plan

The CIF, Credit Authorization, and Personality Profile may be obtained by contacting PDRI. The Franchise Purchase and Sale Agreement and Shareholder Agreement (if necessary) are prepared by the Seller's attorney or by your attorney. The Business Plan must contain a brief written narrative (1 – 2 pages) explaining your plans to operate the franchise and pro forma financial statements by month for the first two years and by year for the first three years. The pro forma financial statements must show the sources and uses of all funds for the purchase and operation of the franchise, including all closing costs, training and transfer fees, and ongoing debt service, owner's compensation, and maintenance of working capital equal to at least 10% of the prior 12 months gross sales.

After PDRI has reviewed and approved the proposed transfer, PDRI will issue a letter which grants PDRI's consent to the transfer subject to certain conditions (the "Consent to Transfer Letter"). Do not close on the purchase of the franchise before you have received the Consent to Transfer Letter. The conditions specified in the Consent to Transfer Letter will include the execution of the documents described below, the payment of all transfer and training fees and other sums due PDRI, and the Purchaser's completion of the new owner training program. After PDRI has received the non-refundable transfer fee and re-sale fee, PDRI will prepare and forward to you and the Seller the following documents:

1. Franchise Termination Agreement and Release
2. Tri-Party Agreement
3. Franchise Agreement

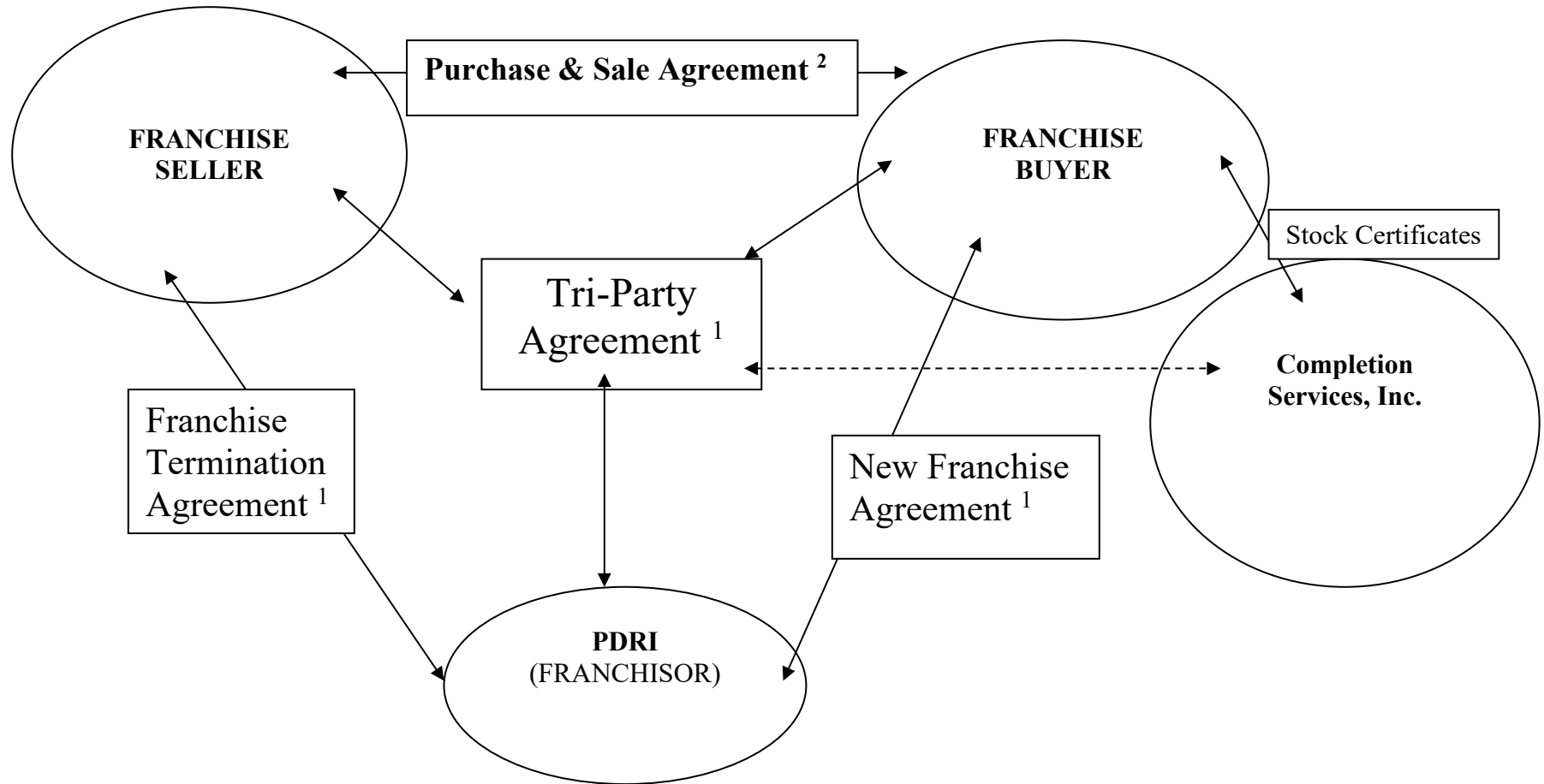
The Franchise Termination Agreement and Release terminates the Seller's franchise agreement. The Tri-Party Agreement deals with certain transitional issues, including the Job Completion and Guarantee Fund (CSI) and the buyer's responsibility for work-in-progress and warranty claims. The Franchise Agreement grants the subject franchise rights to the Purchaser. PDRI cannot enter into a new franchise agreement with you until you have received a Paul Davis Restoration Franchise Disclosure Document (FDD), which provides detailed information about owning and operating a PDR franchise. If you have not received an FDD please contact the Seller or PDRI Corporate Legal Counsel and one will be provided to you.

Copies of the standard form Franchise Termination Agreement and Release and the Tri-Party Agreement are attached. The standard form Franchise Agreement is contained in the FDD. A diagram of the transfer documentation process is also attached. (The documentation is somewhat modified In cases where only a partial interest in an existing franchise or the franchise rights for only a portion of the franchise territory are being acquired.)

The purchase of an existing franchise, like the purchase of any business, is a complex transaction. PDRI encourages you to consult with your attorney and other professional business advisors as you investigate this opportunity. Other than as set forth in the FDD, PDRI makes no representations of any kind concerning the business you are purchasing. Moreover, the consent of PDRI to the transfer of franchise rights to you is not a guarantee that the proposed transaction is in your best interest or that you will ultimately succeed in this venture. It is the responsibility of you and your advisors to investigate the business you are buying and to negotiate the price and terms of sale.

Attachments:      Diagram of Documentation for a Franchise Resale  
                         Tri-Party Agreement  
                         Franchise Termination Agreement and Release

## DOCUMENTATION REQUIRED FOR A FRANCHISE RESALE



1. The Tri-Party Agreement, Franchise Termination Agreement and New Franchise Agreement are standard form agreements and are prepared by PDRI.
2. The Purchase and Sale Agreements, and any related instruments such as Promissory Notes, Security Agreements and Employment Contracts, are prepared by Attorneys for Buyer and Seller and must be submitted to PDRI for review.

**TRI-PARTY AGREEMENT**  
**FOR THE TRANSFER OF A PAUL DAVIS RESTORATION FRANCHISE**  
(Sale of \_\_\_\_\_)

**THIS TRI-PARTY AGREEMENT FOR THE TRANSFER OF A PAUL DAVIS RESTORATION FRANCHISE** (this "Agreement") is made as of \_\_\_\_\_, 20\_\_\_\_, by and among PAUL DAVIS RESTORATION, INC., f/k/a Paul W. Davis Systems, Inc., ("PDRI"); \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, INC. / LLC, d/b/a Paul Davis Restoration of \_\_\_\_\_ (collectively, "Selling Franchisee"); and \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, INC. / LLC, (collectively, "Purchasing Franchisee").

**Background**

Pursuant to a franchise agreement dated \_\_\_\_\_, as amended, (the "Seller's Franchise Agreement") PDRI has granted to Selling Franchisee the right to operate a Paul Davis Restoration franchise (the "Franchise"), in the franchise territory described in the Seller's Franchise Agreement (the "Franchise Rights"). Selling Franchisee has agreed to sell, and Purchasing Franchisee has agreed to buy, the Franchise business, including the Franchise Rights and, pursuant to Seller's Franchise Agreement, Selling Franchisee and Purchasing Franchisee have requested that PDRI consent to the transfer of the Franchise Rights from Selling Franchisee to Purchasing Franchisee. PDRI is willing to grant its consent to such transfer under the terms and conditions set forth herein.

**Terms of Agreement**

**NOW THEREFORE**, for and in consideration of mutual covenants, releases, and other good and valuable consideration the parties agree as follows:

1. The foregoing background is true and correct.
2. Except as set forth herein and in the franchise agreement to be signed by Purchasing Franchisee (the "Purchaser's Franchise Agreement"), PDRI is not a party to the transaction pursuant to which Purchasing Franchisee is acquiring the Franchise business from Selling Franchisee (the "Purchase Transaction"). PURCHASING FRANCHISEE HEREBY ACKNOWLEDGES THAT:
  - a. PURCHASING FRANCHISEE IS PURCHASING THE FRANCHISE FROM SELLING FRANCHISEE, NOT FROM PDRI;
  - b. PURCHASING FRANCHISEE IS RELYING SOLELY ON FACTS AND REPRESENTATIONS PROVIDED BY SELLING FRANCHISEE AND NOT ON REPRESENTATIONS OF PDRI OR ITS AGENTS; and
  - c. PDRI'S APPROVAL OF THIS TRANSFER DOES NOT CONSTITUTE A GUARANTEE OR REPRESENTATION OF SUCCESS BY PDRI.

Purchasing Franchisee represent that they have examined the books and records of Selling Franchisee and otherwise performed all due diligence that they have determined

necessary and appropriate. Purchasing Franchisee acknowledge that any agent or salesperson involved in the Purchase Transaction is an agent of Selling Franchisee and not an agent of PDRI. Purchasing Franchisee shall make no claim against PDRI for any actions or omissions arising out of, or in the course of, the Purchase Transaction or Purchasing Franchisee's relationship with Selling Franchisee. Purchasing Franchisee hereby waives all claims and releases PDRI, its officers, directors, employees and agents, from any claim Purchasing Franchisee may have, including any claim of fraud or misrepresentation, arising out of the Purchase Transaction. Selling Franchisee shall indemnify and hold harmless PDRI, its officers, directors, employees, and agents, from any claim arising out of the Purchase Transaction, including, without limitation, any claim of fraud or misrepresentation made by Selling Franchisee, its officers, directors, or agents, arising out of the Purchase Transaction.

3. Purchasing Franchisee acknowledge that they have received and examined the Purchaser's Franchise Agreement and the Paul Davis Operations Manual (the "Operations Manual"). Purchasing Franchisee agrees to abide by and be bound by the terms and provisions of the Purchaser's Franchise Agreement and the Operations Manual. As soon as practicable following the execution of the Purchaser's Franchise Agreement, Selling Franchisee shall turn over to Purchasing Franchisee the Operations Manual, all designated software, and all other materials provided by PDRI for the operation of the Franchise. Purchasing Franchisee acknowledge that their representative must attend and complete the next available Paul Davis Restoration training program for new franchise owners and that Purchasing Franchisee shall not commence Franchise operations prior to having a representative complete the training program. The transfer of the Franchise shall not be effective and Purchasing Franchisee shall not attend the new owner training program until all transfer fees and training fees have been paid. Purchasing Franchisee shall be responsible for, and shall pay to PDRI, any debts due or to become due to PDRI by Selling Franchisee if not paid by Selling Franchisee.

4. Purchasing Franchisee hereby assumes responsibility for warranty claims filed by customers of Selling Franchisee ("Seller's Warranty Claims") and for jobs begun but not completed by Selling Franchisee prior to the transfer of the Franchise (the "Work in Progress"). Purchasing Franchisee shall supply all labor, materials, and supervision required to complete the Work in Progress and to service Seller's Warranty Claims, if necessary. Purchasing Franchisee and Selling Franchisee shall be jointly and severally liable for Seller's Warranty Claims and the Work in Progress. Purchasing Franchisee and Selling Franchisee, jointly and severally, agree to indemnify and hold PDRI and CSI harmless from and against all claims of any nature arising out of the Work in Progress and Seller's Warranty Claims and any and all costs, fees and expenses incurred by PDRI or CSI in settling, completing, and/or servicing such claims, including but not limited to, attorneys' fees, court costs, and other expenses of investigation or defense.

5. Purchasing Franchisee agrees to indemnify and hold harmless PDRI and CSI from and against any claims, causes of action, suits or settlements arising out of the operation of the Franchise by Purchasing Franchisee (including, without limitation, any claims by customers of Selling Franchisee) and any and all costs, fees and expenses incurred by PDRI or CSI in settling, completing, and/or servicing such claims, including but not limited to, attorneys' fees, court costs, and other expenses of investigation or defense.

6. Purchasing Franchisee agrees to pay for, accept and acknowledge receipt in writing of a new CSI stock certificate and Selling Franchisee agrees to surrender its CSI stock certificate.

7.a. Pursuant to the terms of the Purchaser's Franchise Agreement, all franchisees are required to maintain a deposit account balance in the Job Completion and Payment Guarantee Fund maintained by CSI (the "CSI Account"). The required amount of the CSI Account balance for each franchisee shall be determined from time to time by the Board of Directors of CSI. Purchasing Franchisee shall, on a month-to-month basis, pay one percent (1%) of its previous month's sales to CSI until Purchasing Franchisee's CSI Account balance equals the required account balance. The assignment of the Selling Franchisee's CSI Balance to the Purchasing Franchisee does not alter the Purchasing Franchisee's obligation to establish a new CSI Account.

7.b. Selling Franchisee's CSI Account balance is \$\_\_\_\_\_ as of \_\_\_\_\_ 20\_\_\_. CSI shall retain Selling Franchisee's CSI Account balance until the second anniversary date of this Agreement and CSI shall pay out Selling Franchisee's CSI Account balance to \_\_\_\_\_, subject to adjustment as provided in paragraphs 7c and 8 below and for any other sums Selling Franchisee may owe PDRI or CSI.

7.c. If there is either a positive or a negative retained earnings, including current profit or loss, shown on the most recent financial statement of CSI prior to the signing of this Agreement, the sum shown as Selling Franchisee's CSI Account balance shall be adjusted as follows:

- (1) For a positive retained earnings balance, the CSI Account balance shall remain unchanged and Selling Franchisee's pro rata share of such positive retained earnings shall be paid by CSI to Selling Franchisee not more than thirty (30) days after notification, by Selling Franchisee, of the sale.
- (2) For a negative retained earning balance, the CSI Account balance shall be reduced by Selling Franchisee's pro rata share of such negative retained earnings and such reduction shall be entered into all books and records maintained by CSI, PDRI, and the Franchisee.
- (3) In the event the franchise closes prior to the Payout Date, then the Payout Date shall be extended until the second anniversary date of the completion of the last open job and any warranty claims arising from Purchasing Franchisee's operation of the franchise shall be satisfied first from the Purchasing Franchisee's CSI Account and then from the Selling Franchisee's CSI Account.

7.d. In the event Selling Franchisee is selling only a portion of the franchise territory rather than the entire franchise, then section 7b. and 7c. shall not apply.

8. In the event PDRI or CSI incurs any cost or expense due to the Work in Progress, Seller's Warranty Claims or under any CSI Completion Guarantee Certificate, the funds for the full repayment of such cost or expense shall come from the following

sources in PDRI's or CSI's sole discretion:

- a. Purchasing Franchisee using sums due Selling Franchisee under any right of set-off until such right is exhausted;
- b. Selling Franchisee's CSI Account balance;
- c. Selling Franchisee; and
- d. Purchasing Franchisee.

9. Notwithstanding anything to the contrary set forth in this Agreement or any other agreement to which Selling Franchisee, Purchasing Franchisee, or PDRI may be a party, Selling Franchisee and Purchasing Franchisee agree that any security interest or lien of Selling Franchisee or Purchasing Franchisee in and to the Franchise, or any goods, general intangibles (including the Purchaser's Franchise Agreement and the Franchise Rights), accounts or proceeds thereof relating to the Franchise (collectively, the "Franchise Property") shall be inferior and subordinate to all claims, liens, security interests, encumbrances or other rights or interests, including the right of offset (collectively, "Claims") that:

- a. CSI may now or hereafter have which arise out of or in connection with the payment or performance by CSI in respect of any guaranty certificate issued by CSI on behalf of Selling Franchisee or Purchasing Franchisee; or
- b. PDRI may now or hereafter have for franchise fees or other amounts due and owing to PDRI by Selling Franchisee or Purchasing Franchisee.

In the event that CSI or PDRI shall have a Claim against Selling Franchisee, Selling Franchisee and Purchasing Franchisee hereby agree that (notwithstanding whether or not there exists a right of off-set between Selling Franchisee and Purchasing Franchisee) upon written notification by CSI or PDRI, Purchasing Franchisee shall make all payments owed by Purchasing Franchisee to Selling Franchisee, to CSI or PDRI as appropriate.

10. In the event that Selling Franchisee exercise their rights and remedies in respect to any security interest or lien that they have in and to the Franchise or the Franchise Property, the exercise of which results in the transfer of the Franchise to Selling Franchisee, or to any other party approved by PDRI, then in connection with such transfer:

- a. Selling Franchisee must cure any default under the Purchaser's Franchise Agreement and must pay to CSI and PDRI the amount of any Claims.
- b. Selling Franchisee agrees to be bound by the Operations Manual, the Purchaser's Franchise Agreement, and all other documents or agreements between Purchasing Franchisee and PDRI, CSI, or any other person.

11. Selling Franchisee and Purchasing Franchisee agree that nothing contained in this Agreement, or any other agreement to which Selling Franchisee, Purchasing Franchisee or PDRI may be a party, shall in any manner, limit, restrict or impair PDRI's right to terminate the Purchaser's Franchise Agreement for cause in

accordance with the terms and conditions of the Purchaser's Franchise Agreement and upon such termination of Purchaser's Franchise Agreement all rights, remedies, and interests of Selling Franchisee and Purchasing Franchisee in and to the Franchise Rights shall also terminate.

12. Any controversy or claim arising out of or relating to this Agreement or the Purchase Transaction, if involving PDRI, shall be settled by arbitration in accordance with the arbitration procedures set forth in the Operations Manual.

13. PDRI hereby consents to the transfer of the Franchise Rights from Selling Franchisee to Purchasing Franchisee, provided, however that such consent is expressly conditioned upon the satisfaction of each of the following conditions: (i) the execution of this Agreement, the Purchaser's Franchise Agreement, and the Voluntary Termination Agreement And Release terminating the Seller's Franchise Agreement; (ii) satisfactory completion of the new owner training program by the Purchasing Franchisee's designated representatives; and (iii) payment of all sums due PDRI and CSI. The transfer shall be effective on \_\_\_\_\_ (the "Transfer Date") or on such later date that all the conditions are satisfied, provided however, that if all conditions have not been satisfied within sixty (60) days of the date of the Agreement, then this consent to transfer shall be rescinded.

14. The following general provisions shall govern this Agreement:

a. This Agreement and the agreements referenced herein constitute the entire agreement between the parties. The parties to this Agreement understand and agree that no representations, warranties, agreement or covenants have been made with respect to this Agreement other than those expressly set forth herein and that in executing this Agreement, the parties are not relying upon any representation, warranty, agreement or covenant of PDRI or CSI not set forth herein.

b. Any notice required to be provided to the parties shall be sufficient if in writing and delivered by hand delivery, U.S. Mail, telefax, overnight or courier service addressed as follows, or to the last known business address:

PDRI:	Paul Davis Restoration, Inc. Attention: General Counsel 7251 Salisbury Road, Suite 6 Jacksonville, FL 32256
-------	--

Selling Franchisee:	_____
	_____
	_____
	_____

Purchasing Franchisee:	_____
	_____
	_____
	_____

- c. This Agreement may be amended only by written consent of the parties.
- d. The parties acknowledge and agree that each is an independent contractor of the other and not an employee or employer of the other.
- e. This Agreement may be executed in multiple counterparts and all such counterparts shall be considered originals.
- f. This Agreement shall be governed and construed in accordance with the laws of the State of Florida, excluding its conflict of laws principles. Venue shall lie in Duval County, Florida.
- g. This Agreement may only be assigned by Purchasing Franchisee or Selling Franchisee upon written agreement of PDRI.
- h. In the event of a conflict between any provisions of this Agreement and the agreements establishing the Franchise, then the provisions of the agreements establishing the Franchise shall govern.
- i. Each individual signing this Agreement hereby represents and warrants that such individual has all necessary power and authority, and has obtained all necessary consents and authorizations, to execute this Agreement as a legally binding instrument.
- j. Prior to January 1, 2000, PDRI and its franchisees operated under the tradename of "Paul Davis Systems." "Paul Davis Restoration" was adopted as a new tradename on January 1, 2000, and therefore, all references to the term "Paul Davis Restoration" shall include "Paul Davis Systems."
- k. Neither PDRI's consent to the transfer of the Franchise Rights from Selling Franchisee to Purchasing Franchisee nor the terms of any agreement entered into by Selling Franchisee and Purchasing Franchisee to which PDRI is not a party shall in any manner limit, waive or alter any of PDRI's rights or obligations.
- l. Delay or failure by a party to enforce any term or condition of this Agreement shall not be deemed a waiver of enforcement or further enforcement of that or any other term or condition. The consent or approval by a party to or of any act by the other party of a nature requiring consent or approval shall not be deemed to waive or render unnecessary consent to or approval of any subsequent similar act. All rights and remedies conferred under this Agreement or by any other instrument or law shall be cumulative and may be exercised singularly or concurrently.
- m. Each and every clause of this Agreement shall be severable from each other. In the event that any particular clause herein shall be held invalid and null and void in any judicial proceeding, such finding shall have no effect on the remaining clauses.
- n. The transfer of the Franchise Rights and the execution of the Purchaser's Franchise Agreement shall not constitute a novation as between PDRI and the

Selling Franchisee.

o. This Agreement may be executed in multiple counterparts.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date first above written.

**PDRI:**

Paul Davis Restoration, Inc.

\_\_\_\_\_  
Date signed

By: \_\_\_\_\_  
Print name: \_\_\_\_\_

**SELLING FRANCHISEE:**

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Print name: \_\_\_\_\_

\_\_\_\_\_  
(company)

\_\_\_\_\_  
Date signed

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: \_\_\_\_\_

**PURCHASING FRANCHISEE:**

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Print name: \_\_\_\_\_

\_\_\_\_\_  
(company)

\_\_\_\_\_  
Date signed

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: \_\_\_\_\_

**ACKNOWLEDGED:**

**COMPLETION SERVICES, INC.**

\_\_\_\_\_  
Date signed

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

## **VOLUNTARY TERMINATION AGREEMENT AND RELEASE**

**THIS VOLUNTARY TERMINATION AGREEMENT AND RELEASE** (this "Agreement") is made by and between PAUL DAVIS RESTORATION, INC., ("PDRI"); \_\_\_\_\_ ("Principal Owner"); and \_\_\_\_\_, d/b/a Paul Davis Restoration of \_\_\_\_\_ ("Franchisee").

**FOR AND IN CONSIDERATION** of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are acknowledged by all parties, PDRI, Principal Owner, and Franchisee agree as follows:

1. The Franchise Agreement dated \_\_\_\_\_, as amended ("Franchise Agreement") is hereby terminated effective as of the Transfer Date (as defined in the Tri-Party Agreement For The Transfer of a Paul Davis Restoration Franchise executed in connection with this Agreement) or on such later date that all the Conditions Precedent to Transfer (as defined in the Tri-Party Agreement) are satisfied, provided, however, that any sums due and owing from Franchisee and/or Principal Owner to PDRI are not released under this Agreement.

2. Those provisions of the Franchise Agreement that govern the relationship of the parties after termination, including but not limited to restrictions against the improper use of PDRI's trade secrets, the covenant against competition, and the hold harmless provision, shall survive according to their terms.

3. After the Transfer Date, Principal Owners' telephone number and address will be:

Telephone: \_\_\_\_\_

E-Mail: \_\_\_\_\_

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

\_\_\_\_\_  
\_\_\_\_\_

4. Franchisee and Principal Owner, for themselves and their heirs, successors and assigns, hereby release and forever discharge PDRI, its officers, directors, employees, agents, successors and assigns, from all causes of action, debts, covenants, contracts, damages, judgments, executions, claims and demands whatsoever, in law or in equity, which Franchisee or Principal Owner ever had or may have against it or any of them, arising out of or in any manner related to the Franchise Agreement, or to any other instrument, course of dealing, or relationship between the parties arising out of or in any manner related to the Franchise Agreement or to the granting or operation of any Paul Davis Restoration franchise.

**SIGNATURE PAGE FOLLOWS**

**IN WITNESS WHEREOF**, the parties have executed or caused this instrument to be executed by their duly authorized representatives.

**PDRI:**

PAUL DAVIS RESTORATION, INC.

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

By: \_\_\_\_\_  
Its: CEO

**FRANCHISEE:**

\_\_\_\_\_

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

By: \_\_\_\_\_  
Print name: \_\_\_\_\_  
Its: \_\_\_\_\_

**PRINCIPAL OWNER:**

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

\_\_\_\_\_

### **State Effective Dates**

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registrations: 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:

<b>State</b>	<b>Effective Date</b>
California	Exempt
Florida	Effective
Hawaii	Pending
Illinois	Exempt
Indiana	Pending
Kentucky (one-time exemption)	Exempt
Maryland	Pending
Michigan	Pending
Minnesota	Pending
Nebraska (one-time exemption)	Exempt
New York	Pending
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Texas (one-time exemption)	Exempt
Utah	Exempt
Virginia	Pending
Washington	Pending
Wisconsin	Pending

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

**RECEIPT****STATE:** \_\_\_\_\_

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

If Paul Davis Restoration, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Paul Davis Restoration, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and the state agency listed in Exhibit D.

Issuance date: March 14, 2022

The names, principal business addresses, and telephone numbers of each franchise seller for this franchise offering are as follows: \_\_\_\_\_

PDRI authorizes the agent listed in Exhibit E to receive service of process for PDRI in your state.

I received a Franchise Disclosure Document that included the following exhibits:

EXHIBIT A	FRANCHISEE LIST
EXHIBIT B-1	FINANCIAL STATEMENTS
EXHIBIT B-2	GUARANTEE OF PERFORMANCE
EXHIBIT C	FRANCHISE AGREEMENT
EXHIBIT D	COMMERCIAL PROGRAM AGREEMENT
EXHIBIT E	SCHEDULE OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS
EXHIBIT F	STATE ADDENDA
EXHIBIT G	PROMISSORY NOTE
EXHIBIT H	COMPLIANCE CERTIFICATION
EXHIBIT I	PAUL DAVIS OPERATIONS MANUAL
EXHIBIT J	FRANCHISE RESALE PROCEDURES AND AGREEMENTS

\_\_\_\_\_  
Date Received

\_\_\_\_\_  
Signature of Prospective Franchisee

**(FRANCHISEE'S COPY)**

\_\_\_\_\_  
Printed Name of Prospective Franchisee

**RECEIPT****STATE:** \_\_\_\_\_

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\_\_\_\_\_  
Date Received

\_\_\_\_\_  
Signature of Prospective Franchisee

**(PDRI's COPY)**

\_\_\_\_\_  
Printed Name of Prospective Franchisee