

zerorez®

FRANCHISE DISCLOSURE DOCUMENT

ZEROREZ FRANCHISING SYSTEMS, INC.

A Nevada Corporation

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The ZEROREZ franchisee will operate a business that will provide complete carpet, tile, fabric and living surfaces cleaning services, including upholstery, fabrics, hard surfaces floors, and potentially air duct cleaning and air filters.

The total investment necessary to begin operation of a ZEROREZ Franchise is between ~~\$76,715~~69,115 and ~~\$182,655~~190,155. This includes \$39,900 to ~~\$400,400~~133,100 that must be paid to the franchisor or affiliate.

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

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

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

Issuance date: March ~~29~~30, 2019

2020STATE COVER PAGE

ZEROREZ FRANCHISING SYSTEMS, INC.

Your state may have a franchise law that requires a franchisor to register or file with the state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit A for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

THE FRANCHISE AGREEMENT REQUIRES THE FRANCHISEE TO ARBITRATE ANY DISPUTES WITH US ONLY IN THE STATE OF UTAH. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN UTAH THAN IN YOUR HOME STATE. THIS REQUIREMENT MAY NOT BE ENFORCEABLE IN YOUR STATE. *

THE FRANCHISE AGREEMENT STATES THAT UTAH LAW GOVERNS THE FRANCHISE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS YOUR LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS. THIS REQUIREMENT MAY NOT BE ENFORCEABLE IN YOUR STATE.

THE FRANCHISE WILL DEPEND HEAVILY ON A CLEANING FLUID TECHNOLOGY BELONGING TO A THIRD PARTY TO WHICH WE HAVE A LICENSE.

THE FRANCHISOR HAS MINIMUM SALES QUOTA AND ADVERTISING EXPENSE THAT YOU MUST MAINTAIN. YOU MAY WANT TO CONSIDER THIS WHEN MAKING A DECISION TO PURCHASE THIS FRANCHISE OPPORTUNITY.

YOUR EXCLUSIVE OPERATING TERRITORY WILL HAVE A POPULATION BASE OF UP TO 300,000, BUT THE FRANCHISOR DOES NOT GUARANTEE THAT A MINIMUM POPULATION BASE OR MINIMUM NUMBER OF HOUSEHOLDS WILL BE INCLUDED IN YOUR EXCLUSIVE OPERATING TERRITORY.

THERE MAY BE OTHER RISK FACTORS CONCERNING THIS FRANCHISE.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

Effective Date: See the next page for state effective dates

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: ::

<u>QUESTION</u>	<u>WHERE TO FIND INFORMATION</u>
<u>How much can I earn?</u>	<u>Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit D.</u>
<u>How much will I need to invest?</u>	<u>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.</u>
<u>Does the franchisor have the financial ability to provide support to my business?</u>	<u>Item 21 or Exhibit C includes financial statements. Review these statements carefully.</u>
<u>Is the franchise system stable, growing, or shrinking?</u>	<u>Item 20 summarizes the recent history of the number of company-owned and franchised outlets.</u>
<u>Will my business be the only Zerorez business in my area?</u>	<u>Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.</u>
<u>Does the franchisor have a troubled legal history?</u>	<u>Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.</u>
<u>What's it like to be a Zerorez franchisee?</u>	<u>Item 20 or Exhibit D lists current and former franchisees. You can contact them to ask about their experiences.</u>
<u>What else should I know?</u>	<u>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</u>

the table of contents.

What You Need To Know About Franchising Generally

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

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

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

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

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

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

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

Some States Require Registration

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

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check

the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This Franchise*

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

- 1. Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Utah. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Utah than in your own state.
- 2.** The franchise relies on a cleaning fluid technology belonging to a third party. We hold an exclusive license to use that technology from that third party for your authorized business activities.
- 3.** The franchisor has minimum sales quota and advertising expense that you must maintain. You may want to consider this when making a decision to purchase this franchise opportunity.
- 4.** Your exclusive operating territory will have a population base of up to 300,000, but the franchisor does not guarantee that a minimum population base or minimum number of households will be included in your exclusive operating territory.

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

STATE EFFECTIVE DATES

The following states require that the disclosure document be registered with the state, or be exempt from registration: ~~California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.~~

~~This disclosure document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:~~

State	Effective Date
California	4/5/2019
Hawaii	6/20/2019
Illinois	4/1/2019
Indiana	5/2/2019

Maryland	8/23/2019
Michigan	5/3/2019
Minnesota	5/28/2019
New York	4/22/2019
North Dakota	6/26/2019
Virginia	4/15/2019
Washington	5/3/2019
Wisconsin	3/30/2019

In all other states, the effective date of this disclosure document is the issuance date of March 29, 2019.

MICHIGAN STATE COVER PAGE

ZEROREZ FRANCHISING SYSTEMS, INC.

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

1. A prohibition on the right of a franchisee to join an association of franchisees.
2. A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
3. 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.
4. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
5. 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.
6. 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.
7. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
 - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

- (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- 8. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (3).
- 9. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

If our most recent financial statements are unaudited and show a net worth of less than \$100,000.00, you may request that we arrange for the escrow of initial investment and other funds you paid until our pre-opening obligations to provide real estate, improvements, equipment, inventory, training, or other items including in the franchise offering are fulfilled. At our option, a surety bond may be provided in place of escrow.

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

Any questions regarding this notice should be directed to the State of Michigan Consumer Protection Division, Attn: Franchise Bureau at 525 West Ottawa Street, G. Mennen Williams Building, 7th Floor, Lansing MI 48933 or by telephone at (517) 373-7117.

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EXHIBITS

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

The Franchisor is ZEROREZ Franchising Systems, Inc., a corporation organized on February 26, 2001 under the laws of the state of Nevada (“**Franchisor**”). We do business under the name “ZEROREZ Franchising Systems.” Our principal business address is ~~12577 South 265 West, Suite 3A, Draper, UT 84020~~ 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062. Our agent for service of process authorized to receive service of process, in Nevada, our state of incorporation, is William Shupe, 7540 Dean Martin Dr. #503, Las Vegas, NV 89139. Please see Exhibit A to this franchise disclosure document for a list of the names and addresses of our agents for service of process in various other states. We have offered and sold franchises of this type since 2003. We began offering regional developer franchises in 2013. If you are interested in the regional developer franchise program you must qualify separately. We operated under the name Aqua Care, Inc. until 2002; but we did not sell franchises under this name.

To simplify the language in this franchise disclosure document (“**Disclosure Document**”), the terms “**we**,” “**us**,” “**our**,” “the Company,” “**ZEROREZ**” or “**Franchisor**,” refer to ZEROREZ Franchising Systems, Inc. We will refer to the entity that buys the Franchise as “**you**” or “**franchisee**” throughout this Disclosure Document. Your ZEROREZ franchise business is sometimes referred to in this Disclosure Document as the “**Franchise Business**.” If you are a corporation, a limited liability company or a partnership, certain provisions of the Franchise Agreement (the “**Franchise Agreement**”) will also apply to the stockholders, members, and partners of that entity, and will be noted. The term “**System**” as used in this Disclosure Document and the Franchise Agreement means our marks together with our methods of operation and management, standards, specifications, confidential information, procedures, record keeping techniques, materials and operating manuals, any or all of which we may modify, improve, delete from and/or add to the System.

Z Intellectual Property Holding Company, LLC, a Utah limited liability company (“ZIP”) is an affiliate. Its principal business address is 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062. In January 2020, we assigned the Marks, Patents, System, Manuals and other intellectual property necessary to operate a Franchise Business (collectively, the “Franchise IP”) to ZIP. ZIP licenses the Franchise IP to us pursuant to an exclusive license agreement dated January 1, 2020. The license agreement is of perpetual duration, subject to our compliance with the terms of such agreement.

Zerorez Texas, Inc., a Texas corporation (“Zerorez Texas”) is our an affiliate. Its principal business address is located at 1000 W. Crosby Road, Suite 124, Carrollton, Texas 75006. Zerorez Texas owns and operates Zerorez location in Dallas, Texas. Zerorez Texas acquired from franchisees the Dallas, Texas franchise in 2013 and the St. George, Utah franchise in 2014. The St. George, Utah franchise was transferred to another franchisee in 2015. Zerorez Texas is owned by six of our owners (who own a total of 58.67% of the Franchisor). The franchised location owned by Zerorez Texas operates under franchise agreements and pays royalties to us. Zerorez Texas does not carry out any other business activities.

Zerorez Tulsa, Inc., an Oklahoma corporation, is another an affiliate. Its principal business address is 10601 E. Ute Street, Tulsa, Oklahoma 74116. Zerorez Tulsa operates the Zerorez business in the Tulsa, Oklahoma area. Zerorez Capital District, Inc., a Utah corporation, is an affiliate. Its principal business address is 18 Walker Way #3, Colonie, New York 12205. Zerorez Capital District operates the Zerorez business in the Albany, New York area. Zerorez Lubbock Inc., a Texas corporation, is an affiliate. Its principal business address is 13209 County Road 1800, Lubbock, Texas 79424. In the first quarter of 2020, Zerorez Lubbock began operating the Zerorez business in the Lubbock, Texas area.

SP Ventures, Inc. is an affiliate. Its principal business address is 12577 South 265 West, Suite 3A, Draper, UT 84020 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062. SP Ventures only business is operating our Salt Lake City, Utah franchise, and it operates under a franchise agreement and pays royalties to us.

EnviroTechnologies International Inc. (“**ETI**”), a Delaware corporation is another affiliate. Its principal business address is 437 E. 1000 S., Pleasant Grove, UT 84062. ETI provides environmentally friendly products to the oil and gas and agriculture industries. ETI is also an approved supplier of the EOW ~~Generator~~Generators (as later defined) used in operation of a ZEROREZ franchise. ETI acquired a prior affiliate, Vida Green, Inc. in 2016.

We anticipate entering into contracts or arrangements to provide products and/or license use of the Patents (as defined in Item 14) and other technology used in operating a Zerorez franchise to governmental or quasi-governmental entities specifically for use in government contracts for which franchisees would not qualify to provide the services. No services under any such arrangements would be offered using the Zerorez name or Marks, but services under such arrangements could be offered at government locations in your Territory.

We have no other business activities except as outlined above. Neither we nor any of our affiliates have offered franchises in other lines of business ~~nor have we, as the Franchisor corporate entity, conducted a~~. As outlined above, we conduct business of the type being franchised, but through our affiliates. We also rely on the past and present extensive experience of our staff in related activities, in setting up our franchise. Except as outlined above, we have no parent, predecessor or affiliated entities. ~~We do not carry out any other business activities.~~

We have an exclusive license with EAU Technologies, Inc. (“**EAU**”), a publicly traded Delaware corporation that owns that certain Patent No. 6,638,364, (the “**Patent**”), which Patent protects the technology we use in our franchise business to clean carpets and other living surfaces. We provide you with limited access to the Patent as a franchisee so long as you exclusively use the equipment we require from the sources we provide. The exclusive license continues through the expiration of the Patent in September 2021.

The ZEROREZ Franchise

ZEROREZ is in the business of providing residential and business carpet, tile, fabric care, living surfaces, and restorative cleaning services, including upholstery, fabrics, hard surfaces floors, and optionally air duct cleaning, air filters and wood floor cleaning and restoration (the “**Services**”) under its trademarks and service marks, providing access to equipment and supplies related to those services and licensing franchisees to operate a ZEROREZ Franchise in a particular geographic area (the “**Territory**”). Franchisees are prohibited from pursuing, marketing or providing products or Services to non-residential customers outside their Territory, unless approved in advance in writing by us.

Each ZEROREZ franchisee must be organized as either a corporation or limited liability company prior to executing a franchise agreement and commencing operations as a ZEROREZ franchise. Each ZEROREZ Franchise must offer the complete line of Services related to carpet and living surfaces care to individuals and businesses using methods and techniques specified by us. We will allow you to offer optional services such as wood floor cleaning and restoration, air duct cleaning, and other optional services that we may approve from time to time, so long as you follow the guidelines we prescribe for such optional services. The Services are provided using the proprietary ZEROREZ technology and equipment, contained in a cargo van as further specified in our confidential brand standards manuals (“**Manuals**” further defined in Item 11) bearing our distinctive colors and marks (“**Mobile Unit**”). ZEROREZ franchisees also offer various products and cleaning supplies specified by us for sale to the public. The market for these products and Services is well developed and encompasses any individuals and businesses with floor care needs in your Territory.

If you become a ZEROREZ franchisee, you must compete with a large number of already established locally owned, regional or national floor care businesses, many of which have been in business for a significant period of time. You should investigate your local market for businesses operating under such categories as “Carpet and Upholstery Cleaners” and “Tile and Stone Care” to determine the number of competitors in your area. You can anticipate that, because of the number of competitors likely to be in your area of interest, consumers are likely to be very cost conscious.

We began offering franchises in 2003. We have not offered franchises in any other line of business. A ZEROREZ Franchise is subject to numerous laws and governmental regulations that apply to businesses generally. In addition, certain areas of the country may have environmental regulations that may affect how you operate your ZEROREZ Franchise. Before you purchase a ZEROREZ Franchise, you should investigate the existence of those regulations in your area.

Your franchise may be located within an area allocated to a Regional Developer. If this is the case, the Regional Developer may perform some of the following services on our behalf: (i~~1~~) solicit prospective franchisees and, as we request, assist in the franchise sales process; (ii~~2~~) perform certain site acquisition and development services; and (iii~~3~~) render compliance and enforcement services for and on behalf of us, and provide additional marketing, operational, training and field support services to franchisees. You may also be required to participate in a marketing cooperative covering the Regional Developer's territory and, to pay Regional Developer directly for call center services that you would otherwise provide yourself, if your Territory was not covered by a Regional Developer. The Regional Developer is limited in the amount it can charge you for the call center services. Regional Developers are not authorized, and Regional Developer sales services do not include the right to approve prospects as ZEROREZ franchisees, offer or sell franchises, or negotiate or sign franchise agreements on our behalf. Regional Developers are not party to contracts between us and you. The full disclosures required for Regional Developers are contained in a separate franchise disclosure document.

ITEM 2. BUSINESS EXPERIENCE

CHIEF EXECUTIVE OFFICER: Shawn D. Moon

Mr. Moon is our Chief Executive Officer, a position he has held since September 2017. Mr. Moon was the Executive Vice President of Leadership and Strategic Accounts at Franklin Covey Co. in Salt Lake City, Utah from January 2015 to September 2017 and its Executive Vice President of Global Sales and Delivery from 2010 to January 2015.

CHAIRMAN OF THE BOARD: Gaylord Karren

Mr. Karren is a co-founder of ZEROREZ and has been a board member of ZEROREZ since March 2014.

CHIEF OPERATING OFFICER: Richard Arnold

Mr. Arnold was hired as ZEROREZ's Chief Operating Officer beginning in April 2014. Prior to joining us, Mr. Arnold was the Western U.S. Region Manager at Kinetico Incorporated in Newbury, Ohio from 2007 to April 2014.

BOARD MEMBER: Dr. Benjamin Litalien

Dr. Litalien has been a member of our Board of Directors since June 2018. Dr. Litalien was the Chief Development Officer for ZEROREZ from April 2013 to January 2019. He is also the President of the consulting firm Franchise Well in Stafford, Virginia and has served in that position since October 2008.

DIRECTOR OF MARKETING: ~~Chris Carson~~ Ben Hulme

~~Mr. Carson~~ Hulme has been our Director of Marketing since November 2016. ~~From March 2015 to November 2016 he worked as the Lifecycle Marketing Manager at Chatbooks in Provo, Utah. From April 2012 to March 2015 he worked as the Marketing Manager at Franklin Covey in Salt Lake City, Utah.~~ April 2019. Mr. Hulme is also the general manager of Zerorez Phoenix, one of our franchisees, in Phoenix, Arizona and has served in that position since June 2013. [•].

DIRECTOR OF FRANCHISE OPERATIONS:

Rochelle Weathers

Ms. Weathers has been our Director of Franchise Operations since October 2016. Prior to joining us, Ms. Weathers worked from October 2011 to September 2016 as the General Manager for Zerorez Minnesota, a franchisee, in St. Louis Park, Minnesota.

DIRECTOR OF FRANCHISE DEVELOPMENT SPECIALIST SALES:

Devin Harper

Mr. Harper has been our Director of Franchise Development Manager Specialist Sales since March 2016. Previously, Mr. Harper was our training manager from May 2015 to March 2016. Prior to joining us he worked for Kinetico as the Home Depot Relations Manager in Austin, Texas from June 2008 to November 2014..

FRANCHISE ACCOUNTING MANAGER:

Staci Sutherland

Ms. Sutherland has been our Franchise Account Manager since February 2017. Prior to joining us, she was the Accounting Manager for Prince Hansen Gray and Associates in Sandy, Utah from November 2012 to January 2017. Ms. Sutherland was also an Accounting Consultant for A-Systems Corporation in Holladay, Utah from August 1999 to January 2017.

ITEM 3. LITIGATION

On December 8, 2011, we entered into a Consent Order with the Commissioner of Commerce for the State of Minnesota in *In the Matter of Zerorez Franchising Systems, Inc. a Nevada Corporation*, File No. FR1100265. The Commissioner alleged that we violated the Minnesota Statute §80C by failing to register in Minnesota before making sales to one franchisee. We accepted the order to cease and desist from selling franchises in the State of Minnesota until we were registered to do so, to offer rescission to our Minnesota franchisee, and to pay a penalty of \$1,000 for the alleged violation.

Other than ~~this Consent Order~~ as set forth above, no litigation is required to be disclosed in this Item.

ITEM 4. BANKRUPTCY

No bankruptcy is required to be disclosed in this item.

ITEM 5. INITIAL FEES

In order to acquire a ZEROREZ Franchise, you must pay to ZEROREZ an initial lump sum Franchise Fee of \$39,500 as a Franchise Fee ("**Franchise Fee**"). This Franchise Fee includes a specific geographic territory as agreed upon with up to 300,000 in population as determined using the 2010 U.S. Census (the "**Census**"). With our approval, additional geographic territory may be purchased by you. The fee for such additional geographic territory based on the population of that additional territory and is calculated by multiplying the total Census population in such territory by \$0.10 ("**Additional Territory Fee**"). We do not grant geographic territories to franchisees that have a total population base of over 900,000 as determined by the Census.

The Franchise Fee is due upon execution of the Franchise Agreement. We provide financing for only the Additional Territory Fee according to the terms of a Promissory Note you must enter into with us. ~~The At~~ least 20% of the Additional Territory Fee must be paid at the time of execution. The remaining balance of the Additional Territory Fee (if any) will be due in either 24 or 36 equal monthly payments (as set forth below), with the first payment due six months from the date of the Franchise Agreement. No interest will be charged. The purchase of an additional geographic territory including up to 200,000 in additional

population must be paid over 24 months and the purchase of a geographic territory including 200,000 or more in additional population must be paid over 36 months. Neither the Franchise Fee nor the Additional Territory Fee are refundable under any circumstances, even if your Franchise terminates before your business opens.

The Franchise Fee, and Additional Territory Fee if applicable, will allow you to operate in an exclusive operating territory as described and clearly designated in your Franchise Agreement (“**Territory**”). You are also entitled to offer Services and products on a non-exclusive basis to residential customers located outside your Territory and inside your general market area, excluding persons located in the exclusive territory of another current ZEROREZ franchisee or any future ZEROREZ franchisee that is granted exclusive rights to such territory.

Initial training for up to two people at the same training session prior to the opening of your Franchise is included in the Franchise Fee. If you want more than two people to receive the initial training, or if your training takes place in different training sessions, the charge is \$1,500 per additional person. After the initial training session, the charge for training is \$1,500 per person. The training charge of \$1,500 per person will apply after the initial training session even if fewer than two people are trained in the initial training session. Amounts paid for training are nonrefundable and do not include any travel or lodging or per diem expenses.

You are required to purchase the right to access our Zerorez/Franklin Covey management training library for each person in your management team. The individuals required to purchase this license will be reasonably determined by us in consultation with you and based on your management structure, and may include an owner, general manager and production manager or other individuals we determine necessary. You will pay us our then current fee for access to this library, this fee is currently \$200 per person per year. Typically, a new franchisee will have two to three individuals participating in this program who are required to pay this fee. This fee will be paid upon execution of the Franchise Agreement for the first year and annually thereafter on the anniversary date of the Franchise Agreement and is not refundable.

You are required to purchase an EOW Generator for use in your Franchise. You may purchase this from either our affiliate, ETI, or an approved vendor. If you purchase the EOW Generator from ETI, the cost ranges from \$20,600 to \$33,000, depending on the model you choose. This fee will be paid upon purchase from ETI and is not refundable.

The Franchise Fee and charge for training additional people required of franchisees through this Disclosure Document are uniform in all cases. Those amounts will not necessarily be uniform with franchise fees and charges for training additional people that will be offered through subsequent Disclosure Documents.

ITEM 6. OTHER FEES

Type of Fee (Note 1)	Amount	Due Date	Remarks
Royalty Fee (“ Royalty Fee ”)	6% of gross sales with minimum amounts (Note 2)	By the 15 th of each month based upon the Gross Sales for the prior month	You will pay your Royalty Fee to us through an Electronic Funds Transfer (“EFT”)
Management Training Fee	\$200 per person per year	Annually on the anniversary date of the Franchise Agreement	You will pay this fee for each member of your management team to have unlimited access to our management training library
National Advertising Brand Fund Contribution	5.0 5% of Gross Sales up to 3% of Gross Sales Sales (Note 3)	By the 15 th of each month based upon the Gross Sales for the prior month	You will pay your national advertising contribution to us through an EFT (Note 3)

Type of Fee (Note 1)	Amount	Due Date	Remarks
Local Advertising	5% of Gross Sales (Note 4)	Expended monthly	(Note 4)
Carpet & Rug Institute Certification	Approximately \$100 per year	Annually, as incurred	We require you to become a certified Carpet & Rug Institute business and to pay the required annual fee
ZrWare license and subscription	\$500 initial license fee and a per Mobile Unit per month ongoing fee based on the number of Mobile Units (Note 5)	By the 15 th of each month	You will pay your ZrWare license and subscription fee to us through an EFT (Note 5)
Late Charges	2% of late royalty payment if received after the 20 th of the month; 2% per month interest on unpaid balances (Note 2)	Immediately after notice from us	
Training Fee for Additional Persons	\$1,500 per person	At time of training	(Note 6)
Additional Training/Assistance	\$250 per day plus expenses	As incurred	We charge a daily fee of \$250 plus expenses for any special assistance you request
Transfer Fee	\$7,500	Before Transfer is effective	(Note 7)
Audit Expenses	Cost of audit, plus late fees	Immediately after notice from us	You must pay this fee only if the audit shows that you understated your Gross Sales by more than 2%; in addition to formal audits, you must give us access to your books and records.
Services We Provide to Your Customers	Varies	As incurred	(Note 8)
Annual Convention Fee	Varies	Prior to convention	(Note 9)
Subscription fees for required software (other than ZrWare) and toll free telephone number	\$250-\$400	As incurred	These fees are paid to various vendors. See Item 11 for required software subscriptions and information regarding the toll free telephone number.

Note 1. Unless otherwise stated, all fees are paid to ZEROREZ and are nonrefundable.

Note 2. The Royalty Fee is 6% of Gross Sales. “Gross Sales” include all revenues you receive, whether cash, check, credit, or value of any goods or services traded, bartered, or otherwise received by you from your ZEROREZ Franchise, from the Services done by you or any person employed by you whether or not our name and marks are used and from the sale of any products to customers whether residential or business. The foregoing also includes fees charged to your customers for fuel charges, waste dumping fees or any other surcharge added to a customer’s invoice. Gross Sales do not include sales or use taxes on goods or services collected on behalf of governmental authorities, refunds and credits actually made by you to customers, and receipts from the sale of used equipment. If your state, or any governmental body in your state, charges us a tax on the Royalty Fee we receive from you, then we require you to pay an additional amount sufficient to ensure that we receive the amount we would

have otherwise received had the tax not applied to the payment. This does not apply to any federal income tax we have to pay. You must pay a Royalty Fee on Gross Sales received by you during the entire term of the Agreement and any renewal terms.

The current minimum Royalty Fee (the “**Minimum Royalty Payment**”) you must pay beginning in the first full calendar month after opening for business and generating Gross Sales (“**Opening**”) is \$500 per month. Beginning in the nineteenth full calendar month after Opening and continuing through the thirty-sixth full calendar month after Opening, the Minimum Royalty Payment is \$1,500 per month. Beginning in the thirty-seventh full calendar month after Opening and thereafter, the Minimum Royalty Payment is \$3,000 per month. If your monthly royalty payment, based upon Gross Sales, for any given month is less than the Minimum Royalty Payment, you must pay the Minimum Royalty Payment.

You must also transmit to us electronically, at least monthly, Gross Sales figures (less credits), sales tickets and monthly sales tax statements. In addition, you must provide to us your monthly profit and loss statement by the 15th day following the end of each month and annual financial statements, including profit and loss statements and a balance sheet no later than 30 days after the end of each calendar year.

All royalty payments are due and owing by the 15th of each month through an electronic funds transfer from your bank account to ours. If we do not receive your royalty payment, we will assess a late penalty in the amount of 2% on the amount of the royalty payment due and payable for that billing cycle (the “**Late Fee**”). If you do remit your royalty payment by the 30th day of each monthly billing cycle, in addition to the Late Fee, we will assess interest on the entire amount owing for that specific billing cycle at the rate of 2% per month (or 24% per annum) (the “**Interest Charge**”) or the maximum amount allowed under applicable law, whichever is less. The Interest Charge will continue to accrue on any portion of a royalty payment that is more than 30 days in arrears, until such delinquent royalty payment is paid in full, including payment of the Late Fee.

Note 3. We established a national advertising program in 2016. You are required to contribute to the national program 0.5% of your monthly Gross Sales. Thereafter, the percentage of Gross Sales may be increased by no more than 1% per annum up to a maximum of 3%. You must pay us the contribution to the national advertising program monthly by EFT at the same time as the Royalty Fee but as a separate transfer to an account designated by us.

Note 4. Beginning on the commencement of your Franchise, you must spend at least 5% of your monthly Gross Sales for local advertising and promotion. Upon request, you must deliver to us a report providing proof that you have fulfilled your local advertising requirement. Samples of all advertising, promotional and marketing materials that we have not prepared or previously approved must be submitted to us for approval at least 30 days prior to the closing date for the submittal of materials as set by the media company for timely publication. Unless we notify you otherwise in writing within 14 business days of submission to us, the material shall be deemed approved. You may use these local advertising funds individually or in a local cooperative advertising program. We have the right to review any records to confirm that your expenditures meet the requirements. In the future, if your Territory is located in an advertising market where other ZEROREZ franchisees or company owned locations are located, we may require you to participate in a market-wide advertising cooperative. Amounts contributed to the local advertising cooperative will be credited toward your minimum required local advertising expenditure.

Note 5. You must use ZrWare, our proprietary software management program, in conducting the Franchise Business. The cost for the initial license is \$500. Thereafter, the cost varies based on the number of Mobile Units you use in your operations. Currently the fee schedule is as follows: \$90 per Mobile Unit per month for 1-10 Mobile Units; \$85 per Mobile Unit per Month for 11-25 Mobile Units; \$80 per Mobile Unit per month for 26-50 Mobile Units; \$75 per Mobile Unit per month for 50-59 Mobile Units; \$60 per Mobile Unit per month for 60-75 Mobile Units; and \$50 per Mobile Unit per month for over 75 Mobile Units.

Note 6. We provide the initial training of up to two people at our expense. We charge a training fee for the training of any additional individuals. You may repeat the training at a future date, as needed, on a space available basis upon payment of the training fee. All training manuals and materials will be provided at no cost for up to two people from your Franchise Business. You will be responsible for paying for your own lodging, meals, transportation, and other out of pocket expenses connected with any and all of this training.

If you require additional training for the Services or ancillary services or consulting services outside the scope of our training regimen, we may charge additional fees for such training or consulting services.

Note 7. You may not sell, assign, transfer, or encumber your rights under the Franchise Agreement or sell all or substantially all of the assets of the Franchise Business (“**Transfer**”), unless you meet our requirements as outlined in the Franchise Agreement. The Transfer fee is \$7,500, payable to Franchisor. If you sell or assign more than one franchise to the same person at one time, you will pay one transfer fee. In addition, you must execute (i) a mutual termination and release agreement in a form acceptable to us; and (ii) the new entity must execute the then-current version of our franchise agreement. Transferees must also pay the then-current training fee for training its employees, which training must occur prior to the Transfer of the Franchise.

Note 8. You must guarantee all of the work of you and your employees. If we incur costs to inspect or correct your work as the result of a customer complaint and your failure to satisfactorily respond to such a complaint, you must reimburse us for our costs reasonably incurred to remedy the complaint.

Note 9. We hold annual or periodic conventions for our franchisees. There will be no charge for you and up to three individuals, approved by us in writing, from your Franchise Business attending any such convention. We reserve the right to charge a fee for any additional attendees that we approve to attend. You will be responsible for all of the expenses of the persons you send to the convention, including travel, lodging, and food.

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 (Note 1)	\$39,500	Lump Sum Payment	Upon signing Franchise Agreement	Zerorez
Additional Territory Fee (Note 2)	\$0-\$60,000	Installments	24 or 36 monthly payments beginning six months after signing Franchise Agreement, depending on population in additional Territory.	Zerorez

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is to Be Made
Management Training Fee	\$400-\$600	Lump Sum Payment	Upon signing Franchise Agreement to cover first year of access	Zerorez
Equipment Package (Note 3)	\$4,610-\$4,835	As Agreed	As Agreed	Third party vendor
Initial Inventory & Supplies (Note 4)	\$815-\$8,645	Lump Sum Payment	Prior to opening	Third party vendor
Mobile Unit (Note 5)	\$2,790 - \$2,925	As Agreed	As Agreed	Third party vendor
Advertising (Note 6)	\$40,000 \$5,000-\$30,000	As Incurred	As Incurred	Various
Travel & Living Expenses While Training (Note 7)	\$3,000-\$5,000 (based on two persons)	As Incurred	Prior to Opening	Vendor/Service provider
Computer System & Equipment, and telephone	\$3,500 \$1,500-\$6,000	Lump Sum Payment	Prior to Opening	Vendor
Website set up	\$500 - \$750	Lump Sum Payment	Prior to Opening	Vendor
Subscriptions to Listen360, QuickBooks Online, ZrWare, Criteria Corp, FleetMatics and website services for first three months (see Note 10)	\$1,700 - \$2,300	As Incurred	As Incurred	Vendors
Private Certification (Note 8)	\$350-\$600	Lump Sum payment	Prior to Opening	Third party
Real Property (Note 9)	\$0-\$4,500	Lump Sum Payment	Prior to Opening	Landlord
Miscellaneous Other Expenses (Note 10)	\$0-\$1,500	Various	As Incurred	Various
Insurance (Note 11)	\$4,800 \$1,450-\$3,000	(Note 12)	(Note 12)	Insurance provider
Additional Funds (covers first 90 days) (Note 12)	\$7,500- \$42,500 \$20,000	Various	As Incurred	Various
Total (Note 13)	\$76,715 \$182,655 \$69,115 - \$190,155			

The foregoing chart describes the estimated initial investment for a Franchise Business using one Mobile Unit to provide the Services. These numbers are based upon the Mobile Unit and equipment package being financed, rather than purchased outright, which has been the general practice of our franchisees. We prepared these estimates based on the experience and data collected from our current franchisees. Except as expressly indicated otherwise, these estimates cover your initial cash investment up to the opening of your Franchise Business, and potential working capital needs for the first 90 days of operations thereafter. They do not include your cash needs to cover any financing incurred by you or your other

expenses. You should not plan to draw income from the operation during the start-up and development stage of your business, the actual duration of which will vary materially from one franchisee to another and cannot be predicted by us for your Franchise Business. You should consider having additional sums available, whether in cash or through a bank line of credit, or have other assets that you may liquidate or against which you may borrow to cover other expenses and any operating losses you may sustain, whether during your start-up or thereafter. The amount of necessary reserves will vary greatly from franchisee to franchisee and will depend upon many factors, including the rate of growth and success of your Franchise Business, which in turn will depend upon factors such as public awareness of our business and the ZEROREZ brand, your ability to operate efficiently and in conformance with our recommended methods of doing business, and competition. Because the exact amount of reserves will vary from operation to operation and cannot be meaningfully estimated by us, we urge you to retain the services of an experienced accountant or financial advisor to develop a business plan and financial projections for your particular operation.

None of the estimated expenditures listed in the table payable to Zerorez are refundable. Whether amounts paid to third parties are refundable is determined by your agreement with such third party.

Note 1. The Franchise Fee is \$39,500 and includes a designated geographic territory with a total population of up to 300,000 people, as determined by the census. The Franchise Fee is not refundable.

Note 2. Upon our approval, you can purchase an additional geographic territory pursuant to the Additional Territory Fee, provided that the total population in your Territory may not exceed 900,000. The Additional Territory Fee for an additional geographic territory is calculated by multiplying the population in such additional territory as determined by the Census by \$0.10. The Additional Territory Fee is not refundable. The Additional Territory Fee is payable to us in either 24 or 36 equal monthly installments beginning six months after you sign the Franchise Agreement, as further set forth in Item 10.

Note 3. You must purchase the ZEROREZ equipment package as detailed in our Manuals from sources acceptable to and approved by us. The figures stated in the table are the estimated cost of the equipment packages required to operate one Mobile Unit Franchise Business based on current pricing from our sources. The actual cost to you of the equipment packages will likely vary from time to time as a result of pricing changes by our equipment sources and may also vary as a result of factors specifically applicable to you, such as vendor, location, delivery or shipping charges, and other items.

You can acquire the required equipment through sources we identify or through your own source, which must be approved by us. Based on our experience with current franchisees, the cost to finance the equipment required to operate the Franchised Business according to the System over a 48 month term at an interest rate ranging from 5.99% to 7.99% based on credit history, includes a down payment ranging from \$1,844 to \$1,934 and monthly payments thereafter ranging from \$922 to \$967. The actual cost of the financing will vary depending on your credit rating, the term, and any additional, non-required equipment you choose to purchase. The estimated range includes your down payment and first three payments. The cost to purchase, rather than finance as outlined in the table, the required equipment ranges from \$38,850 to \$46,750.

The required equipment package fully described in our Manuals, as further defined in Item 11, includes one electrolyzed oxidative water generator (“**EOW Generator**”) and a water-softening device, which is either a free-standing EOW Generator installed in your base or an EOW Generator installed in a Mobile Unit, which you must have in order to provide the Services. The EOW Generator produces the alkaline cleaning solution that must be used in your ZEROREZ franchise (herein referred to as “**B Water**”) that must be used in your operations. Failure to use B Water as we prescribe will constitute a violation of your Franchise Agreement. You must purchase EOW Generators to use in the Franchised Business from our approved suppliers, We have approved multiple third party vendors, including our affiliate, ETI. The terms of purchase and the warranty attached to your specific EOW Generator will vary depending on the EOW Generator you purchase and from which third party vendor you purchase your

EOW Generator. We require that you fulfill all obligations required under the purchase of your EOW Generator. You must notify us of the third party vendor that supplies your EOW Generator and the terms and conditions of your purchase.

Note 4. You are required to purchase from us or approved third party vendors an initial supply of cleaning products and supplies in order to commence operation of your ZEROREZ Franchise as detailed in the Manuals. Supplies purchased from other suppliers must comply in all respects with our System standards. See Item 8 of this Disclosure Document.

Note 5. You must transport the cleaning equipment to the customer's location on a Mobile Unit to perform the Services. Accordingly, you cannot operate without an approved Mobile Unit that is equipped with options necessary for mounting and operating the cleaning equipment and that otherwise complies with our System standards as further described in the Manuals. You can lease the required Mobile Unit through sources we identify or through your own source. Based on our experience with current franchisees, the cost to finance the Mobile Unit required to operate the Franchised Business according to the System, over a 48-month term at a rate from 5.99% to 7.99% based on your credit history, includes a down payment ranging from \$1,116 to \$1,170 and monthly payments thereafter ranging from \$558 to \$585. The actual cost of the financing will vary depending on your credit rating, the term, and any additional, non-required equipment you choose to purchase. The estimated range includes your down payment and first three payments. The cost to purchase one Mobile Unit, should you choose not to finance the Mobile Unit in the manner we have outlined, ranges from \$28,000 to \$44,000.

Note 6. The amounts shown reflect an estimate of cost of initial advertising to promote the opening of your ZEROREZ Franchise and during the first 90 days of operation. We require you to spend a minimum of 5% of your Gross Sales on advertising, therefore, the minimum initial cost will depend on the Gross Sales of your ZEROREZ Franchise Business during the initial period. The initial advertising may consist of electronic advertising, flyers, etc., however, most franchisees utilize radio advertising as the primary medium. Advertising costs can vary considerably from area to area based upon the size of the area, the types of media available and other factors.

Note 7. The range of estimates presented above reflects that transportation expenses will vary according to distance traveled and mode of transportation.

Note 8. We require you or your designated manager to complete certification with the Institute of Inspection, Cleaning & Restoration Certification ("IICRC"), a third party certification program, as part of your initial training. This training must be completed prior to opening your ZEROREZ franchise. The cost is between \$350 and \$600. We require you to become a certified Carpet & Rug Institute ("CRI") business, which will cost approximately \$100 per year. You must always have, at a minimum, one employee that is IICRC Certified.

Note 9. You are not required to establish a separate operating facility until you have three Mobile Units in operation. To fulfill your requirement to fully develop the potential of the business in your Territory, you are required to add Mobile Units when necessary to ensure you promptly and adequately provide service to all customers within the Territory. The estimated amounts reflect the circumstance where some franchisees may initially operate from their residence, while others will choose to establish a separate facility. The higher figure is an estimate of the lease rate for an office/storage facility of approximately 1,500 square feet to be large enough for a three-Mobile Unit operation. Actual lease rates may vary considerably from area to area based upon local rental rates and availability of suitable commercial space.

Note 10. This is an estimate of miscellaneous expenses you will incur in the first three months of operating the business and includes security deposits are based upon an initial one Mobile Unit operation. This cost may vary based on factors such as the number of routes your franchise operates.

This estimate is based on our past experience operating the business offered in this Disclosure Document.

Note 11. Insurance costs vary in different locations. The estimate is for one year of liability insurance coverage, property and casualty insurance coverage and vehicle coverage. If you have employees, you may incur expenses for workers' compensation insurance. We are unable to estimate amounts that you may be required to spend for workers' compensation insurance. The requirements and rates vary widely from place to place. We reserve the right, upon 60 days prior written notice, to require you to obtain additional liability, property, vehicle or workers' compensation coverage, as provided under the Franchise Agreement.

Note 12. You should be aware that many of the initial expenses, such as advertising, rent, payroll, insurance and your transitional living expenses, will repeat on a monthly basis, and you should therefore make sure you have sufficient additional funds to meet the franchise business operation commitments during the first 90 days of operation. The actual amount of additional funds that you will need depends on a variety of factors including the size of your area, the time of year when you start your business, your management skill, economic conditions, and competition in your area, your business plan, and other factors. The estimate of additional funds is based upon an owner-operated business and does not include any salaries or benefits for employees or any allowance for an owner's draw. We estimate that, in general, a franchisee can expect to invest additional cash into the business during the first 90 days, and sometimes longer, but we cannot estimate or promise when, or whether, any individual franchisee will achieve positive cash flow or profits.

Note 13. We have relied on our experience in the cleaning industry to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase a franchise.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must operate your ZEROREZ Franchise according to our System. The System regulates most aspects of your Franchise Business, including the products and Services you offer, advertising materials, uniforms, office supplies, stationery, and other miscellaneous materials used in your Franchise Business. All cleaning products, supplies, advertising materials and equipment used by you in the establishment and operation of your ZEROREZ Franchise must meet our specifications, as established by us from time to time. We will provide written notice to you of any modifications to these specifications. The proprietary products and other cleaning products described in the Manuals must be purchased from us or approved third party vendors, unless we determine otherwise. In addition, you may only offer Services authorized by us, and you must offer those Services in accordance with our requirements, as established from time to time. The System, to achieve the most proficient, non-residue cleaning, requires that you use our ZrLifter, ZrWand and water from an approved EOW Generator. You must use the ZrLifter, ZrWand and water from an approved EOW Generator in your Franchise Business. You may not offer services that we do not, or cease to, authorize upon notification by us that those services are no longer authorized. The source of these obligations is the Franchise Agreement, and the purpose of these requirements is to maintain the ZEROREZ image and preserve the integrity of the System, to ensure the identification of ZEROREZ franchisees by the public, to preserve and enhance the goodwill associated with the image, and to fulfill expectations of ZEROREZ's customers. Specifications may include minimum standards for quality, performance, safety, durability, appearance, size, color, fitness for purpose, design, material, and other characteristics. Upon termination of your ZEROREZ franchise, we will instruct you in the manner and method of disposition of your ZEROREZ equipment, including removing any and all Marks for your equipment, etc.

Items Which You Must Purchase

The EOW Generator produces B Water, the cleaning solution used in all ZEROREZ franchises. You may only purchase EOW Generators from third-party vendors we have approved, including our affiliate ETI. The

terms of purchase and the warranty attached to your specific EOW Generator will vary depending on the EOW Generator you purchase and from which third party vendor you purchase your EOW Generator. We require that you fulfill all obligations required under the purchase of your EOW Generator. You must notify us as to the third-party vendor that supplies your EOW Generator and the terms and conditions of your purchase. You must use B Water in your operations and for no other purpose. Failure to use B Water will constitute a violation of your Franchise Agreement.

ZEROREZ holds an exclusive license from EAU as noted in Items 1 and 14 for use of the Patent and the technology granted thereunder for carpet and living surface cleaning services provided to customers in the United States and Canada, which includes a license to sell franchises authorizing others to use the generator EOW Generator and cleaning solution. You will not be permitted to sell the EOW Generator to anyone, other than a person who purchases your Franchise Business and assumes your obligations under the Franchise Agreement. Additionally, you will not be allowed to sell any fluids generated by the EOW Generator(s) in bottles or in bulk without our prior written consent.

Both Zerorez and any vendor that supplies your EOW Generator will provide training on the installation of the EOW Generator during your initial training. You will then be responsible for the actual installation of the EOW Generator. You will be responsible to follow the manufacturer's guidelines in your operation of the EOW Generator. Each warranty respecting your EOW Generator will vary based upon the EOW Generator you purchase and the third party vendor from whom you purchase the same.

You must purchase and use in your ZEROREZ franchise, initially and throughout your term as a Zerorez franchisee, certain specific tools, accessories and equipment, as described in the Manuals. In order to maintain the proprietary nature of your Franchise Business, and to assure the consistent delivery of the ZEROREZ proprietary services Services, some of the items you will be required to purchase can only be obtained from or through us or approved vendors. The products described in the Manuals must be used in your Franchised Business for ongoing operations and can only be purchased through us or Zerorez-approved vendors. You are required to purchase from approved vendors an initial supply of cleaning products and supplies in order to commence operation of your ZEROREZ Franchise. These required products and supplies are detailed in the Manuals. We do not currently supply any of your initial supply of cleaning products or inventory, although we may do so in the future. Purchasing other or similar products (equipment and cleaning products) from unauthorized third parties constitutes a violation of the Franchise Agreement and lead to the termination of your Franchise.

You must purchase or lease and use in your ZEROREZ franchise Mobile Units that meet the standards described in our Manuals. You may purchase your Mobile Units directly from a dealer we suggest or from one you select. Each Mobile Unit you acquire for your franchise must be modified to include certain equipment and accessories required to mount the required cleaning equipment. These Mobile Unit items may only be purchased and installed by approved suppliers we identify.

You must purchase a license for ZrWare, which is owned and operated by us, ~~to~~ and use the latest available version of the software ZrWare for your franchise. You will also pay us a monthly fee based upon the number of Mobile Units used in your franchise. You must upgrade or supplement your hardware and/or software, including the purchase of additional equipment if necessary, as specified by us from time to time to improve the overall effectiveness and competitiveness of your business. Please review Item 11 for additional information regarding computer hardware and software you must purchase or license.

We have obtained a toll free telephone number 1-866-ZEROREZ, and you are required to advertise the central 1-866-ZEROREZ telephone number in all of your advertising. Calls to the central telephone number for jobs within your exclusive operating Territory will be routed to you. We will bill you a monthly fee for the use of this telephone number (See Item 6). Calls for jobs within your market but that are outside your exclusive operating Territory will be routed to you and/or any other franchisee(s) operating within that market area, as determined ~~in~~, at our discretion.

If we develop other proprietary equipment or products in the future, we may, as determined by us in our sole discretion, require you to purchase those items from us.

Approved Suppliers

You must purchase all products, including, but not limited to, cleaning products, chemicals, equipment, signs, uniforms, supplies, stationery, paper goods, business cards, and report forms used in the operation of your ZEROEZ franchise only from suppliers who have been approved by us. We, or our affiliates, may be an approved supplier for required purchases and in some cases may be the only approved supplier. If we or an affiliate are an approved supplier we will receive profits from sales to franchisees. As of the date of this Disclosure Document, our affiliate is an approved supplier for the EOW Generator as set forth in Item 1 and elsewhere in this Item 8. We continually review and evaluate suppliers for this purpose and approve those who are able to meet our standards and specifications, who possess adequate quality controls, and who have the capacity to supply our needs and the needs of our franchisees promptly and reliably. The criteria we use in approving suppliers are available to franchisees upon written request. We reserve the right to limit the number of approved suppliers for the purposes of efficiency and effective buying power. All items purchased from approved suppliers must meet our System standards.

We will give you a list of approved suppliers before you start your Franchise Business. If you want to purchase products from suppliers other than those we have approved, you must request our approval in writing before doing so. Before giving our approval, we may ask the supplier to provide samples of materials they wish to provide to you, and we may investigate the ability of the supplier to provide materials that meet our specifications. The prospective supplier must pay to us the actual costs associated with the investigation of their product(s), although we do not impose any fee upon you for such an investigation. We will tell you within 30 days whether or not a supplier will be approved. If we approve a supplier, we have the right to re-inspect its facilities, products and service record from time to time, and we can revoke our approval if the supplier fails to meet our standards or does not cooperate with us in our periodic re-approval process. Our determination regarding approval or disapproval is final.

ZEROEZ has not established and does not participate in any purchasing or distribution cooperatives and no purchasing or distribution cooperatives have been approved. As described under Item 11 of this Disclosure Document, we may establish advertising cooperatives.

We may, at our option, negotiate certain purchase and pricing arrangements with suppliers for the benefit of the entire ZEROEZ ~~franchisee group~~ franchise organization and charge a markup and make a profit on such purchasing arrangements. We do not provide any special benefits to franchisees based upon their use of such suppliers. We reserve the right to collect rebates from suppliers based upon sales made to you in order to defray the costs of interfacing with these suppliers on behalf of our franchisees, however the cost to franchisees shall not exceed open market rates for the same or reasonably similar products or services.

Insurance

You must obtain and maintain, at your own expense, the insurance coverage delineated in the Franchise Agreement, including "all risk" property and casualty insurance, commercial liability insurance, automobile liability insurance, statutorily required workers compensation insurance coverage, or any other insurance required by state law as described in the Manuals. While you are free to obtain insurance from the company of your choice, we may from time to time have certain relationships with insurers you can use. The current description provides that you must maintain general liability insurance of at least \$1,000,000 per accident or occurrence affecting one or more persons or property damage and \$1,000,000 aggregate. Your cost for this insurance will depend on where your franchise is located, insurance carrier's rates, your insurance history and the level of your deductibles. All policies of insurance maintained by you must contain a separate endorsement naming ZEROEZ as an additional insured and provide that we receive at least 30 days prior written notice of termination, cancellation or expiration of any insurance. You must provide us a copy of your insurance binder. All insurance maintained by you must be placed with an insurance carrier

or carriers with an A.M. Best's rating of "A" and an A.M. Best's Class rating of "xiv" or otherwise must be approved in writing by us. The cost of this coverage will vary depending on the insurance carrier(s), the terms of payment and your history.

You shall obtain and maintain in effect a blanket fidelity bond in the amount of \$250,000 to cover your employees from and against any intentional act(s) (including any intentional tortuous acts) by your employees in the course of their employment under the Franchise Business; and shall send the Company a copy of such bond. This bond must provide that the Company shall be given 30 days' prior written notice of termination, cancellation, or expiration.

National Accounts

We may, at our option, enter into agreements to provide or accept services for third party companies on a national or regional basis ("**National Accounts**"). National Accounts may be floor-covering manufacturers, retailers, insurance companies or other businesses that offer a market for our Services. You should be aware that National Accounts may lead to high volume and, in some situations, discounted pricing. In order to fully develop the ZEROREZ brand on a national basis, you will be required to service National Accounts at the pricing established by ZEROREZ. In negotiating pricing schedules on National Accounts, ZEROREZ will negotiate ~~in~~ on behalf of all of the franchisees. When a National Account or the customer of a National Account outlet requests ZEROREZ ~~Services~~ services in your exclusive operating Territory or within 10 miles of your exclusive operating Territory, whether through us or from you directly, you must provide the Services requested for the applicable price. Your failure to service National Accounts when requested to do so is a breach of the Franchise Agreement. You must offer expanded service hours, including 24-hour on-call capability, if reasonably required to service a National Account. If a special price is not in effect for a specific National Account, you may charge your standard rates for service to the National Account. Zerorez has a National Account through our franchisee in Minneapolis with Lifetime Fitness. Should there be Lifetime Fitness location(s) in your Territory you may have the opportunity to provide Services as prescribed in the agreement between Lifetime Fitness and Zerorez of Minnesota.

Ownership Interest in Suppliers

ETI, which is owned by our principal owners, is one of the approved suppliers of the EOW Generator necessary to operate the ZEROREZ franchise. None of our officers own any interest in any other supplier from whom you are required to purchase as a franchisee.

Revenue Derived by Franchisor and Affiliates from Franchisee Purchases

Our total revenue from all sources in our last fiscal year ending December 31, ~~2018~~2019 was \$4,979,853~~5,567,962~~ and the revenues to us from required ~~purchase~~purchases of products by our franchisees from our approved suppliers or us was \$0 for the same period or 0% of our total revenues.

Our affiliate, ETI, is an approved supplier of the EOW Generator and received revenues of \$347,005~~267,431~~ from such purchases in ~~2018~~2019.

We estimate that your purchases of goods and services in accordance with specifications will represent approximately 90 to 100% of your total purchase in connection with establishing your Franchised Business and approximately 90 to 100% of your total purchases in connection with operating your Franchised Business.

In ~~2018~~2019, we received rebates from approved suppliers of equipment and supplies. These rebates are calculated based on the gross sales by these suppliers to our franchisees and range from 1% to 4% of such sales. We do not currently receive any other rebates from any approved suppliers and we do not have any plans to do so, although we reserve the right to receive additional rebates in the future, however, the cost to franchisees shall not exceed open market rates for the same or reasonably similar products or services.

ITEM 9. FRANCHISEE’S OBLIGATIONS

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

OBLIGATION	SECTION(S) IN AGREEMENT	ITEM(S) IN DISCLOSURE DOCUMENT
a. Site selection and acquisition/lease	Section 3 of the Franchise Agreement	Items 7 & 11
b. Pre-opening purchases/leases	Sections 4 & 11 of Franchise Agreement	Items 7 & 8
c. Site development and other pre-opening requirements	Section 7 of the Franchise Agreement	Items 7 & 11
d. Initial and on-going training	Section 4 of the Franchise Agreement	Items 7 & 11
e. Opening	Section 3 of the Franchise Agreement	Items 7 & 11
f. Fees	Sections 2, 4 & 12 of the Franchise Agreement	Items 5, 6 & 7
g. Compliance with standards and policies / Operating Manual	Section 4 & 5 of the Franchise Agreement	Items 8, 11, 15 & 16
h. Trademarks and proprietary information	Sections 5, 6 & 8 of the Franchise Agreement	Items 13 & 14
i. Restrictions on products/services offered	Sections 1 & 5 of the Franchise Agreement	Items 8 & 16
j. Warranty and customer service requirements	Section 5 of the Franchise Agreement	Items 6 & 11
k. Territorial development and sales quotas	Sections 2 & 5 of the Franchise Agreement	Item 12
l. On-going product/service purchases	Section 5 of the Franchise Agreement	Item 8
m. Maintenance, appearance and remodeling requirements	Section 5 of the Franchise Agreement	Items 7 & 11
n. Insurance	Section 11 of the Franchise Agreement	Items 7 & 8
o. Advertising	Section 7 of the Franchise Agreement	Items 6, 8 & 11
p. Indemnification	Section 11 of the Franchise Agreement	Items 6 & 13
q. Owner’s participation/ management/staffing	Section 5 of the Franchise Agreement	Items 11 & 15
r. Records/Reports	Sections 2, 5 & 10 of the Franchise Agreement	Items 6 & 11
s. Inspections/Audits	Section 10 of the Franchise Agreement	Item 6
t. Transfer	Section 12 of the Franchise Agreement	Item 17
u. Renewal	Sections 1 & 13 of the Franchise Agreement	Item 17
v. Post-termination obligations	Section 14 of the Franchise Agreement	Item 17
w. Non-competition covenants	Section 8 of the Franchise Agreement	Item 17
x. Dispute Resolution	Section 15 of the Franchise Agreement	Item 17

ITEM 10. FINANCING

We offer financing, but only for Additional Territory Fees pursuant to a promissory note you must sign with us at the time of entering into the Franchise Agreement or upon agreeing to purchase additional territory. You must make a down payment of at least 20% of the Additional Territory Fees. The remaining amount may be financed. This financing is provided interest free. If you fail to make timely payments, we may, at our option, demand immediate payment of the full balance and obtain attorneys' fees and court costs if collection action is necessary. In addition, if you do not timely make payments, we may terminate the Franchise Agreement. You must make equal monthly payments over a period of 24 or 36 months with payments beginning six months from the time that you sign the Franchise Agreement. The specific term of the promissory note is determined by the population in the additional geographic territory purchased. The purchase of additional territory including up to 200,000 in additional population as determined by the Census must be paid over 24 months, and the purchase of a territory including 200,000 or more in additional population must be paid over 36 months. You may prepay the promissory note at any time before the maturity date without penalty. We do intend to sell, assign or discount to a third party all or part of the promissory note.

Other than as set forth above, we do not offer any financing. We do not have any arrangements where we receive compensation for assisting you in obtaining financing. If we make such an arrangement, we will disclose the arrangement(s) to you or any franchisee(s) to whom we make it available. We reserve the right to receive compensation for arranging financing.

We do not guarantee your note, lease or obligation. If you are a corporation, limited liability company or limited partnership, we require your shareholders, members and limited partners to guarantee all of your obligations to us.

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

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

If your franchise is located within a Regional Developer territory, either at the time of opening or after you open it, our Regional Developer may discharge some or all of the obligations that we describe in this Item 11 for us, as allowed in the Franchise Agreement. The term "we" in this Item 11 refers interchangeably to us and to the Regional Developer whom we may appoint to service a Regional Developer territory that includes your franchise. Ultimately, however, we are responsible for ensuring that we comply with our obligations to you under your Franchise Agreement with us.

Obligations Prior to Opening

Before you begin to operate your ZEROREZ franchise, we will provide the following assistance:

1. Designate your exclusive operating Territory at the time you sign your Franchise Agreement (Franchise Agreement, Section 1.1).
2. Connect you with your EOW Generator third party vendor in order to purchase one or more EOW Generators needed for your proposed Franchise operation (Franchise Agreement, Section 5.3).
3. Provide a list of approved vendors that will sell to you the equipment you are required to install on your ZEROREZ Mobile Units and assist you with the installation of equipment and outfitting of your Mobile Units for operation (Franchise Agreement, Section 5.3).

4. Provide a list of approved vendors that will sell to you the equipment and supplies for which we are the sole source that you need to operate your Franchise Business (Franchise Agreement, Section 5.2).
5. Provide you with a list of approved suppliers (Franchise Agreement, Section 5.2).
6. Lend to you, for the term of the Franchise Agreement, our Manuals, as further defined in Item 11, and remains our property (Franchise Agreement, Section 4.3).
7. Permit you to use the ZEROREZ trademarks and service marks and the ZEROREZ System, in accordance with our requirements (Franchise Agreement, Section 1.1).
8. Provide initial training of two persons, you and a person designated by you, at times and locations designated by us (Franchise Agreement, Section 4.1).
9. Provide you and your management team access to our management training library (Franchise Agreement, Section 2.2).

Obligations After Opening

During the operation of your ZEROREZ franchise, we will provide the following assistance:

1. Continuation of the Obligations Prior to Opening described above, as applicable and as those obligations and assistance are needed.
2. Provide marketing and pricing advice. You are not obligated to follow that advice; you have the right to determine your local marketing strategy and the prices you charge, except for National Accounts, for which we will establish pricing.
3. Conduct an annual convention for all ZEROREZ franchisees (Franchise Agreement, Section 4.3).
4. Provide a Marketing Resource Library (the “MRL”) through our website, which contains advertising materials developed by us and our franchisees from time to time for use in a ZEROREZ Franchise. When changes are made to the MRL, we will update our website accordingly.
5. We will use the national advertising program funds collected from you to formulate and conduct the program (Franchise Agreement, Section 7.3).
6. Use commercially reasonable efforts to protect the ZEROREZ trademarks, service marks and proprietary products from infringement by any person (Franchise Agreement, Section 6.3).
7. Periodically update our Manuals (Franchise Agreement, Section 4.3).
8. Provide you and your management team access to our management training library (Franchise Agreement, Section 2.2).

Advertising Programs

We consider advertising and promotion to be critical to the establishment and growth of a ZEROREZ Franchise. As a result, we require that you spend at least 5% of your Gross Sales for local advertising. You are free to determine how the required local advertising funds are spent, provided that you request and receive our approval in advance for any use of our Marks, provide us with a summary of the advertising expenditures on at least a quarterly basis, and provided further that you will promptly discontinue any advertising upon our request. You may employ the services of an advertising agency if you so desire. All

advertising materials not prepared by us, or which were produced by us but altered by you or your representatives, must be approved by us in advance of their publication.

You must contribute 0.5% of your Gross Sales per month to our national brand fund. We may increase the percentage of Gross Sales by no more than 1% per annum up to a maximum of 3%. In connection with the national advertising program, we have the final right to approve all advertising vendors and advertising copy and will administer this fund or engage a third party to manage this fund if ever established. All franchisees will contribute at the same rate. We and our affiliate owned outlets will contribute the same percentage of Gross Sales in the same manner. The fund will be used to assist the system as a whole to grow in recognition and to test various marketing techniques and advertising for the benefit of the entire system. The fund will be audited annually and franchisees will be allowed to request an accounting of the fund 90 days after the end of each calendar year in writing for the fund's use in the previous year. Franchisees are limited to one such request for an audit annually. The fund will not be used for solicitation of new franchisees.

In ~~2018~~2019, ~~8098.9~~8098.9% of the fund expenditures were on production costs and ~~201.1~~201.1% on administrative expenses.

In the future, if your Territory is located in an advertising market where other ZEROREZ franchisees or company owned locations are located, we may require you to participate in a market-wide advertising cooperative. You will not be required to contribute more than 5% of your Gross Sales to any such cooperative, and all amounts contributed to the local advertising cooperative will be credited toward your minimum required local advertising expenditure. Any ZEROREZ business owned by us or any of our affiliates will participate in any cooperative on the same basis as you are required to contribute. Any cooperative will be administered by the cooperative according to bylaw or guidelines provided by us. We may change any governing bylaws or guidelines as we deem reasonably necessary for the benefit of the members and the system. Any governing documents will be made available to the members upon request.

In order to maintain consistency and quality, you will be required to purchase most of your advertising through whatever media buyer or advertising company we may reasonably designate from time to time so long as the service fees charged by such buyer or company are reasonable and that such requirement is consistently applied to all franchisees. You may advertise our central 1-866-ZEROREZ telephone number in all of your advertising. All calls to the central telephone number originating within your exclusive operating Territory will be routed to you. Calls for jobs within your market but that are outside your exclusive operating Territory and the exclusive territory of other franchisees will be routed to you and/or any other franchisees operating within that market area, as determined in our discretion.

To maintain the consistency of our brand and advertising connected to our brand, we require that you submit all advertising (in any and all media) to us prior to distribution for our approval. Such approval shall be submitted to our Brand Alignment department.

Other than the responsibilities outlined above, we have no obligation to conduct advertising, whether local, regional or national to spend any amount on advertising in your Territory.

In 2014, we established a marketing committee. The committee meets quarterly and consists of seven franchisee representatives that each serve for a two-year term and two franchisor representatives. The committee serves only in an advisory role to formulate marketing strategies both locally and nationally and to provide a marketing resource for franchisees. No decisions of the committee are binding in any way, including decisions regarding the use of marketing funds are made by the committee. ZEROREZ can dissolve the committee in its sole discretion, in accordance with the committee bylaws.

We also created and support the ZEROREZ Franchise Advisory Council ("**FAC**"), which consists of four representative franchisees, elected for a two or three-year term by our franchisees and one appointed ZEROREZ corporate representative. The FAC is an advisory board to help franchisees communicate with the system, and its existence is governed by bylaws. One member of the FAC is assigned specifically to

marketing issues. The FAC does not have decision making authority and does not bind us or franchisees in any way, other than with respect to speaking for franchisees.

If we, or a Regional Developer covering your Territory, determine that a cooperative media area-advertising program should be formed, you must participate in and pay the designated fees related to that cooperative advertising program. All ZEROREZ franchisees that have businesses, including us and our affiliates, in the media area must participate in the cooperative. The media area will be determined by us using third party media services such as Nielson for television and radio and areas of circulation for printed media.

Cooperatives operate under “**Cooperative Advertising Guidelines**” published and updated from time to time in the Manuals. Each cooperative is free to set its own budget and is self-administered under guidelines as described in the Manuals. All cooperatives operate on a one ZEROREZ Franchise equals one-vote basis. In the event of disputes or tie votes, which cannot be resolved by the members of the cooperative, we reserve the right to resolve the dispute. Unless ZEROREZ is a member of an advertising cooperative in your media area, we have no obligation to spend any money for advertising in your area. We do not require cooperatives to prepare or submit periodic financial statements, although they are free to do so.

We require you to maintain the website for your franchise that we prescribe, provided by our approved website provider(s). There is a \$750 cost of setting up the website and, you will be required to pay a monthly service fee as designated in the Manuals. The current monthly fee is \$150. You are not permitted to obtain or maintain any other Internet web site, domain name or online presence, separate from this website, which contains anything related to the ZEROREZ franchise, business, approved services or any of our trademarks or service marks without our express written approval.

We will support the toll-free number, 1-866 ZEROREZ (937-6739), and Internet sites, www.zeroresidue.com, www.myzerorez.com and www.zerorez.com.

Computer/Software Systems

You must use computers, software, Internet connections and printers that meet our specifications and that integrate with our corporate server, in order to facilitate companywide Customer Relationship Management (“**CRM**”) for scheduling and managing operations. The cost of purchasing such a system ranges from \$3,500 to \$6,000. As of the date of this Disclosure Document our required software program for use in your Franchise Business is ZrWare, which is owned and operated by us. You will obtain a license from us for a \$500 one-time license fee to use the latest available version of ZrWare (the “**Software**”) and will pay us a monthly fee, based upon the number of Mobile Units used in your franchise. Other than ZrWare, we have no contractual obligation to provide maintenance, repairs, updates, or upgrades with respect to your computer systems. You must upgrade or supplement your hardware and/or software, including the purchase of additional equipment if necessary, as specified by us from time to time without contractual limit to improve the overall effectiveness and competitiveness of your business. The cost of ZrWare depends on the number of routes that you operate. We estimate that the cost will average \$1,080 per year for a one Mobile Unit operation. You must grant us independent access to all financial information generated and stored in your computer systems. We reserve the right to have independent access to your schedule for the purpose of scheduling appointments for National Accounts. There are no contractual limits to our access to this information.

In addition to ZrWare, we require that you subscribe to Listen360, a customer service satisfaction program that costs \$47 per month as of the date of this Disclosure Document; QuickBooks Online, an accounting software program that costs \$39.85 per month as of the date of this Disclosure Document; Criteria Corp, a third party testing and survey company that costs \$35 per month as of the date of this Disclosure Document; and a website management program that costs \$150 per month as of the date of this Disclosure Document, but this amount may change as will be revised from time-to-time in the Manuals.

To operate these programs, you will need computer equipment meeting the specifications we may establish from time to time. Other than the software requirement outlined above, we do not currently have any specification established regarding computers, Internet connections or printers. We do not recommend any particular supplier of computer equipment and are under no obligation to help you find computer equipment. You may purchase equipment meeting our specifications from any supplier you choose. We will provide you with the telephone support to help you operate the software and to answer routine questions about the operation and maintenance of the software. The manufacturer will assist in providing technical support if necessary.

You are prohibited from changing or modifying the software package we designate for your use and you will be bound by the terms of the license agreement that comes with the software.

We have private, secure sites on the Internet, which are available to ZEROREZ franchisees, 24 hours per day, and 7 days per week. These sites allow you and other franchisees to send e-mail to the corporate staff, post and respond to questions and view other responses in question and answer forums, view and print news items, download files and software updates, update and order business forms, order products you will use in the operation of your business, conduct background checks on prospective employees, and access training courses and materials for you and your employees. We will provide you with a specific ZEROREZ email address that you must use to communicate with us in regards to the franchise.

Confidential Brand Standards Manuals

Manuals means our confidential brand standards manuals, which currently includes each of the six manuals listed below (referred to collectively herein as the “**Manuals**”), as may be amended and supplemented from time to time, containing our System standards, specifications and operating procedures relating to the development and operation of a ZEROREZ franchise. We will loan you one copy of the Manuals, which you will receive at the appropriate time during the initial training in our offices. The Manuals also include alternative or supplemental means of communicating that information by other media, including bulletins, e-mails, videotapes, audiotapes, compact discs, computer diskettes and ~~CDs~~ CDs. The current Manuals total ~~387584~~ pages and include the following separate manuals: “Basic Technician Training,” carpet cleaning science and processes (~~9548~~ pages); “Advanced Technician Training,” carpet cleaning science and processes (~~109~~ pages); “Technician Onboarding Training,” initial technician training process (~~46~~ pages); “Call Center Training,” customer service policies and procedures and software operation (~~5567~~ pages); “Dispatch & Routing,” processes for training dispatch and routing positions (~~4626~~ pages); “Marketing,” procedures to plan and implement a marketing program (~~93100~~ pages); “Logistics,” vehicle, equipment and shop support procedures (~~5887~~ pages); and “Morning Meeting,” outlines required morning meeting procedures and content (~~70101~~ pages). Copies of the Manuals will be made available to you to review in our offices prior to your signing the Franchise Agreement. You agree to keep your copy of the Manuals current. If there is a dispute relating to the contents of the Manuals, the then current version posted on our Intranet site will be controlling. The Manuals contain Confidential Information, and you agree not to copy any part of it or distribute it to anyone outside your Franchise Business.

Site Selection

You select the site for your business within your Territory. We do not select or approve a business location for you, and we are not required to provide any assistance to you in selecting a location, although we will offer guidance if requested to do so by you.

Time Before Opening

You must commence operation of your ZEROREZ Franchise within 45 calendar days after you complete our initial training program. The typical length of time from the signing of a Franchise Agreement to the commencement of operations by a franchisee is 60 to 90 days. Factors affecting the length of time before opening usually include obtaining the necessary financing if any, delivery of the Mobile Unit and installation

of the required equipment, schedule of training classes and the termination of your current employment if necessary.

Training

Training Program

You must complete the initial training class and demonstrate competency with performing the Services according to the System in compliance with the Manuals, as determined in our discretion, before you begin the operation of your ZEROREZ Franchise. We intend to provide you access to the initial training class no more than 60 days after signing your franchise agreement. Up to two individuals whom we approve in advance may attend the initial training for no additional charge. Additional individuals whom we approve in advance in writing may attend at a cost of \$1,500 per person. In addition, you must pay all costs and expenses of you and your designees to attend the training including transportation, food, lodging, and any wages due of the person(s) attending training, if applicable.

This training program is offered and operated under our direction at our facility in ~~Draper, UT~~ Pleasant Grove, Utah, however, we reserve the right to alter the location as we deem appropriate. The typical training begins on a Monday and concludes 11 days later, however, there is no training on Sunday during the training period. We will also provide no less than three business days of on-site training within 45 days of commencement of your business.

Besides participating in our initial training, we will also arrange IICRC certification for two individuals approved by us (at an additional cost to you of approximately \$350 - \$600 per person) and other periodic certification training you will be required to participate in that may take place at or after your initial training, prior to commencing your operation as a ZEROREZ franchisee. You, and all of your technician employees, will be required to pass periodic examinations in order to be certified to clean carpet and provide other living surfaces care services using the ZEROREZ System. You must always have an IICRC certified employee working in your ZEROREZ operation, and you must always maintain your CRI status.

The chart below generally summarizes the subjects we typically cover in training, the instruction materials we use, the approximate hours of instruction and the location of training. Details of instruction and times for particular sessions may vary according to availability of staff, areas of concentration needed by trainees and other factors. The training is conducted by our staff and organized and supervised by Richard Arnold. The instructors will generally have at least 12 months experience in our System for the subject matters they teach. The instructional materials include our Manuals and other materials.

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
ZEROREZ Systems	2	1	Training Center in Draper <u>Pleasant Grove</u> , UT and On-Site
Upholstery	4	2	Training Center in Draper <u>Pleasant Grove</u> , UT and On-Site
Mobile Unit & Equipment Maintenance	4	1	Training Center in Draper <u>Pleasant Grove</u> , UT and On-Site

Carpet Cleaning (IICRC Training)	4	20	Training Center in Draper Pleasant Grove, UT and On-Site
Hardwood	4	2	Training Center in Draper Pleasant Grove, UT and On-Site
Tile and Hard Surface Cleaning	2	2	Training Center in Draper Pleasant Grove, UT and On-Site
Call Center Operations	16	20	Training Center in Draper Pleasant Grove, UT and On-Site
Zerorez Culture	2	0	Training Center in Draper Pleasant Grove, UT
Mobile Unit Check Out	2	0	Training Center in Draper Pleasant Grove, UT
TOTAL	40	48	

Additional Training

If you require additional training for services or ancillary services or consulting services outside the scope of our training regimen, we may charge additional fees for such training or consulting services. Currently, we charge a daily fee of \$250 plus expenses for any special assistance you request, however we reserve the right to change this fee. We may offer other required or optional training programs to your employees, such as new product training, in locations we designate or via our online training site. If we direct you to do so, you must ensure that your employees satisfactorily complete any required training. We do not expect to make a profit on any additional training, and the fees we charge for that training will be limited to the amount necessary to recoup our costs. You and your employees will be expected to cover all out of pocket expenses (if any) to participate in such additional training, including transportation, meals and lodging. We also provide you and your management team unlimited access, upon payment of our per person annual fee, to the Zerorez/Franklin Covey management training library that provides training on leadership and culture.

Annual Conference / Convention

We hold an annual convention each year. There is no charge for up to four total individuals associated with your Franchise to attend the convention, provided that we approve these individuals in advance in writing. However, you will be responsible for all approved attendees' expenses for attending the convention, including transportation, meals and lodging. We reserve the right to charge a registration fee for franchisees to attend the annual conference in the future.

ITEM 12. TERRITORY

Prior to signing the Franchise Agreement, you will be given an exclusive operating Territory for providing residential and commercial Services, which will be a geographic region within a specific market area as defined by us and agreed to by you. The number of households in the exclusive territories of franchisees will vary based on a number of factors, including, regional location, median income, home values, number of single family dwellings, specific locale, and potential business accounts as we believe these factors are indicative of households and businesses more or less likely to use the services provided by a ZEROREZ

franchisee. We expect each exclusive territory will have up to 300,000 in population base to provide a meaningful customer base. However, we do not guarantee that your Territory will have a certain minimum number of households or that the number of households at the beginning of your franchise will remain static or increase. In addition to the approximately 300,000 population base in the geographic Territory that you receive for the Franchise Fee, you may be allowed, as we determine in our discretion, either at the time you begin operations or later (provided you have met your business development quotas and are current on all payments to us) to purchase additional geographic territory that will be included in the Territory. The total population base in your Territory may not exceed 900,000 as determined by the Census. You have the exclusive right to provide the Services within your exclusive operating Territory.

In addition to having the exclusive right to provide the Services within your exclusive operating Territory, you will also have the non-exclusive right to provide the Services outside your exclusive operating Territory and within your market area, provided that the location of that service is not within the exclusive Territory of the Company or any other franchisee. If you receive a request for Services outside your exclusive operating Territory, you will be required to refer the request for Services to the ZEROREZ franchisee of the exclusive operating territory in which the service is requested. If the request for Services is for Services inside the market area and outside any exclusive operating territory belonging to a ZEROREZ franchisee or the Company, then you may accept the job, even if the job is outside your exclusive operating Territory. We may, in the future, grant to another franchisee an exclusive license to or operate a company owned franchise in a territory that is outside your exclusive operating Territory but that is within the same market area in which your exclusive operating Territory is located, and in such event you will be required to cease doing business in that newly created exclusive operating Territory belonging to another franchisee or us. You should realize that all of your market area could be subject to exclusive territories of franchisees, in which case the only area where you can provide Services is in your exclusive Territory.

Subject to the limitations described below, we retain the right to offer and sell franchises or operate company owned locations covering any territory other than the Territory covered by your exclusive operating Territory.

We may sell products bearing the Marks in retail stores such as supermarkets, floor covering stores, hardware stores or home centers, or other channels of distribution, including but not limited to direct response marketing campaigns, infomercials, via the internet or other similar marketing ~~initiative~~initiatives, without regard to your exclusive operating Territory. We reserve the right to promote and/or sell products and Services via the Internet, e-commerce or other similar marketing channels. Neither we nor any affiliate must pay any compensation to you for soliciting and/or conducting such additional business activities in your exclusive territory. We reserve the right to license our processes for the Services, but not the Marks, to any third party entity we may choose, and in which one or more Zerorez principals may have an interest, to perform cleaning services under contracts such third parties have the exclusive right to perform such services. We reserve the right to enter into contracts or arrangements to provide products and/or license use of the Patents and other technology used in operating a Zerorez franchise to governmental or quasi-governmental entities specifically for use in government contracts for which franchisees would not qualify to provide the Services. No services under any such arrangements would be offered using the Zerorez name or Marks, but services under such arrangements could be offered at government locations in your Territory. We may establish or acquire other franchise systems for similar or different products and services using different trademarks or service marks in your exclusive operating Territory, or the exclusive operating Territory belonging to any other ZEROREZ franchisee. However, we will exercise care to reasonably ensure that any such activities will not detract from or adversely affect our franchisee(s) in its/their particular market(s). Under the Franchise Agreement, you have an obligation to use your best efforts to promote your ZEROREZ franchise and to increase demand for your Services within your exclusive operating Territory. After your first full year of operation, you will be in breach of the Franchise Agreement if you fail to achieve the Gross Sales necessary to meet the minimum monthly royalty payments for six consecutive months.

The description of your Territory may not be changed unless you agree in writing. You maintain rights to your exclusive operating Territory even if the population within the exclusive operating Territory increases during the term of your Franchise Agreement. The boundaries of your operating Territory will not change according to increases or decreases in population during the term of the Franchise Agreement.

We have not established conditions under which we will approve the relocation of a ZEROREZ franchise because we believe franchise relocations will occur very rarely. Franchisee has no options, rights of first refusal or similar rights to acquire additional franchises unless special offers are made available to you in writing.

ZEROREZ reserves that right to develop, and to market and sell to commercial end users anywhere in the world, including in your exclusive operating Territory, a portable carpet or fabric cleaning system.

ITEM 13. TRADEMARKS

The Franchise Agreement gives you the right to operate a ZEROREZ franchise under the trade names, trademarks and service marks that we establish (the “Marks”). You must follow our rules when you use ~~our marks~~ the Marks. You cannot use any of our names or marks as a part of a corporate name or with modifying words, designs or symbols, except those we license to you. You may not use any of ~~our~~ the names or ~~marks~~ Marks for the sale of any unauthorized products or Services or in a way we have not authorized in writing. ZIP is the owner of the Marks and licenses the exclusive right to use the Marks (along with the other Franchise IP). The license agreement with ZIP is dated January 1, 2020 and, subject to the terms of the agreement, is of perpetual duration. There are no limitations on our use of the Marks.

~~We have received federal registration of the Marks listed below~~ The following Marks are registered on the Principal Register of the United States Patent and Trademark Office. (“USPTO”):

“ZEROREZ®” – Registration #2912417 on ~~12-21-04~~ December 21, 2004, renewed ~~01-10-15~~ January 1, 2015

“NO RESIDUE®” – Registration #4577715 on ~~07-29-14~~ July 29, 2014

“NO RESIDUE MEANS CLEANER LONGER®” – Registration #4506950 on ~~04-01-14~~ April 1, 2014

“ZERO RESIDUE®” – Registration #4577711 on ~~07-29-14~~ September 17, 2019

“ZEROREZIFIED®” – Registration #4506952 on ~~04-01-14~~ April 1, 2014

“ZEROREZ THE RIGHT WAY TO CLEAN®” – Registration #5406605 on ~~02-20-2018~~ February 20, 2018

Logo consisting of name and nine dots – Registration #2912416 on ~~12-21-04~~ December 21, 2004, renewed ~~01-10-15~~ January 10, 2015



Logo consisting “ZEROREZ THE RIGHT WAY TO CLEAN” – Registration #5396117 on ~~02-06-2018~~ February 6, 2018

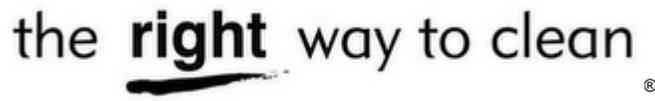


“RESIDUE FREE®” – Registration #4878853 on ~~12-29-15~~ December 29, 2015

“GOTTA LOVE IT GUARANTEE®” – Registration #4756350 on ~~06-16-15~~ June 16, 2015

“Powered Water®” – Registration #4744037 on ~~05-26-15~~

Logo consisting “THE RIGHT WAY TO CLEAN” – Registration #5406604 on ~~02-20-2018~~ February 20, 2018



Logo consisting of nine bubbles – Registration #5562322 on September 11, 2018



“EXPERIENCE CLEAN®” – Registration #5704111 on March 19, 2019

“ZERO RESIDUE MEANS CLEANER LONGER®” – Registration #5704113 on March 19, 2019

Logo consisting of “ZEROREZ” design – Registration #5566972 on September 18, 2018



Logo consisting of “ZEROREZ THE RIGHT WAY TO CLEAN” and nine bubbles design – Registration #5566911 on September 18, 2018



Logo consisting of “ZR®” design – Registration #5566973 on September 18, 2018



Logo consisting of “ZR” design – Registration #5566974 on September 18, 2018



“ZR FREE®” – Registration #5566912 on September 18, 2018

“ZR LIFTER®” – Registration #5566913 on September 18, 2018

Logo consisting of nine bubbles and “ZR LIFTER” – Registration #5566915 on September 18, 2018



“ZR PROCESS®” – Registration #5704115 on March 19, 2019

Logo consisting of “ZR ZEROEZ” design – Registration #5704160 on March 19, 2019



ZR WATER® – Registration #5728609 on April 16, 2019

In addition to the above federal trademark registrations, we claim common law trademark protection in the following marks denoted with the “™” symbol. We do not yet have federal registration for these trademarks, but have common law rights and may have filed applications with the United States Patent and Trademark Office. Therefore, these trademarks do not have as many legal benefits and rights as a federally-registered trademark. If our right to use the trademarks is challenged, you may have to change to an alternate trademark, which may increase your expenses.

“Nano-Action™”ZR WARE™ – Serial #8753203287/532360, Filed July 7~~18~~, 2017

“Raving Fans™”Logo consisting of nine bubbles and “ZR WARE” – Serial #8753204287/532498, Filed July 18, 2017



~~“We Clean Green™”~~ ZERO RESIDUE™ – Serial #~~8816456388/624520~~, Filed ~~October 22, 2018~~ September 20, 2019

Logo consisting of ~~“We Clean Green!”~~ THE ZERO REZ DIFFERENCE™ – Serial #~~8816456388/847612~~, Filed ~~October 22~~ March 25, 2018 2020

™

~~“ZR Ware™”~~ INSANELY CLEAN CARPETS™ – Serial #~~8753236088/847605~~, Filed ~~July 18~~ March 25, 2017 2020

NANO-ACTION™

RAVING FANS™

WE CLEAN GREEN™

Logo consisting of ~~nine bubbles and “ZR Ware”~~ – Serial #~~87532498~~, Filed ~~July 18, 2017~~ “WE CLEAN GREEN!”



~~“ZR Water™”~~ – Serial #~~87532509~~, Filed ~~July 18, 2017~~

. NO STICKY RESIDUE™

INSANELY CLEAN™

NOTHING BUT CLEAN™

ALL WE LEAVE IS CLEAN™

THE SMARTER WAY TO CLEAN CARPETS™

SAFE ENOUGH TO DRINK™

NO RESIDUE CARPET CLEANING™

SOAP IS A 4 LETTER WORD™

Your right to use these Marks and other symbols, logotypes, insignia, trademarks, or service marks developed for and used with your ZERO REZ Franchise is derived solely from the Franchise Agreement. You use these Marks solely in connection with the operation of the franchise licensed by us. You may not

use the Marks with the sale of any unauthorized product or service or in any other way not explicitly authorized by the Franchise Agreement or otherwise approved by us in writing. You must display the Marks only as we specifically direct or approve. You may not use any portion of the Marks as part of your company name or as part of your trade name without our prior written consent. You must display the following legend on all stationery, business cards, promotional material, and signs on your premises, Mobile Units, and other materials as we may require: "This franchise is independently owned and operated under a 'Franchise Agreement,' with ZEROREZ Franchising Systems, Inc."

We have the right to approve all stationery, promotional items, displays, and other materials you prepare using the Marks. If you fail to comply with any trademark use requirement described in the Franchise Agreement, we may terminate your right to use the Marks and may take any other action we deem appropriate to protect the Marks.

The goodwill associated with these Marks will remain our or ZIP's exclusive property and you will derive no tangible benefit from our goodwill, except for the general benefit you receive from the operation of the ZEROREZ franchise. Upon termination of the Franchise Agreement, all rights to use the Marks will automatically revert to us without payment to you and without the execution or delivery of any document.

We reserve the right to adopt new marks at any time, or to change our marks. If we adopt new marks, or change our existing marks, you must use the new or modified marks, and discontinue the use of any marks we decide to change or discontinue. In that case, we will either give you sufficient notice to allow you to use any trademarked stationery and/or marketing material purchased by you in the immediately preceding ninety days which will become obsolete, or at our option, purchase those materials from you at your cost.

~~We do not know of any infringing uses that could materially affect your use of the Marks. All required affidavits have been filed.~~

All required affidavits have been filed with the USPTO. ZIP intends to file renewal applications for the Marks. There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court. There are no pending infringement, opposition, or cancellation proceedings. There is no pending material federal or state court litigation regarding our use or ownership rights in a trademark. There are no currently effective agreements that significantly limit our rights to use or license the use of trademarks listed above in a manner material to the franchise. We do not know of either superior prior rights or infringing uses that could materially affect your use of the principal trademarks.

You must notify us of any use of, or claim of right to, a trademark, which is identical to our marks. You may not prosecute or defend any claim or action with respect to the marks without our consent. We must use such efforts as we deem reasonable, considering the costs and other risks involved, to protect our marks from infringement by any person. We have the right to control any administrative proceedings or litigation concerning any of the marks. You must cooperate with us in any proceeding or litigation involving any of the marks.

We agree to indemnify you against, and to reimburse you for, all damages for which you are held liable in any action for trademark infringement arising out of your authorized use of any Mark according to and in compliance with this Agreement and, except as otherwise provided, for all costs you reasonably incur in defending any claim brought against you, provided you have timely notified us of the claim and provided further that you are in compliance with this Agreement and all other agreements entered into with us or any of our affiliates. We, at our sole discretion, are entitled to prosecute, defend and/or settle any action arising out of your use of any Mark, and if we undertake to prosecute, defend and/or settle any matter, we have no obligation to indemnify or reimburse you for any fees or disbursements of any legal counsel retained by you.

ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

~~The United States Patent, patent no. No. 6,638,364, system to clean and disinfect carpets, fabrics, and hard surfaces using electrolyzed alkaline water produced from a solution of NaCl entitled “SYSTEM AND METHOD TO CLEAN AND DISINFECT CARPETS, FABRICS, AND HARD SURFACES USING ELECTROLYZED ALKALINE WATER PRODUCED FROM A SOLUTION OF NaCl” issued on October 28, 2003 and protects the technology, system and method we use in our franchise business to clean carpets, flooring and other household surfaces. We hold an exclusive license from EAU for the use of the Patent and the technology it protects for carpet and other flooring and household surface cleaning. We provide you with access to the Patent as a franchisee so long as you exclusively use the equipment we require from the sources we provide. The exclusive license rights continue through expiration of the Patent in September 2021.~~

~~We filed a US utility patent application on March 2, 2017 (US Serial No. 15/448,323) titled United States Patent No. 10,413,147 entitled “SYSTEMS AND METHODS FOR PROVIDING A WAND FOR A FLOOR CLEANING APPARATUS”, which claims priority to US Provisional Application Serial No. 62/302,716, is pending at issued with the United States Patent Office, and was published on September 7, 2017 (US 2017-0251896 A1). We filed, 2019. We also filed a continuation patent application on September 16, 2019 (US Serial No. 16/572,471) with the same title. Further, we filed corresponding National Phase applications in Canada (Application No. 3,054,355), the European Patent Office (Application No. 17760852.8), and in the Australian Patent Office (Application No. 2017225979), both of which claim priority to US Provisional Application Serial No. 62/302,716 and are titled “SYSTEMS AND METHODS FOR PROVIDING A WAND FOR A FLOOR CLEANING APPARATUS”. These applications relate to a wand technologies used exclusively in the franchise business to clean carpets, flooring and other household surfaces.~~

~~We filed eight US utility patent applications on February 26, 2019 (together with the above patent owned by ZIP, (the “Patents”), namely, US Serial No. 16/286,367 titled “SYSTEMS AND APPARATUS FOR PRODUCING ELECTROLYZED ALKALINE AND OXIDIZING WATER”, US Serial No. 16/286,418 titled “METHODS AND PROCESSES FOR PRODUCING ELECTROLYZED ALKALINE AND OXIDIZING WATER”, US Serial No. 16/286,279 titled “SYSTEMS AND APPARATUS FOR PRODUCING ELECTROLYZED WATER”, US Serial No. 16/286,304 titled “METHODS AND PROCESSES FOR PRODUCING ELECTROLYZED WATER”, US Serial No. 16/286,458 titled “SYSTEMS AND METHODS FOR PROVIDING AN ELECTROLYTIC CELL”, US Serial No. 16/286,493 titled “SYSTEMS AND METHODS FOR PROVIDING A DYNAMICALLY OPERATING ELECTROLYTIC CELLS”, US Serial No. 16/286,319 titled “SYSTEMS AND METHODS FOR PROVIDING A MAGNETICALLY TREATED ELECTROLYZED WATER”, and US Serial No. 16/286,399 titled “SYSTEMS AND METHODS FOR CONDITIONING ELECTROLYZED WATER”, which all claim priority to US Provisional Application Serial No. 62/635,380 and are pending at the United States Patent Office. We also filed a corresponding international Patent Cooperation Treaty (PCT) application on February 26, 2019 titled “SYSTEMS AND METHODS FOR PRODUCING ELECTROLYZED ALKALINE AND OXIDIZING WATER”, which also claims priority to US Provisional Application Serial No. 62/635,380 and includes all that was disclosed in the eight US utility patent applications. These applications relate to proprietary cleaning systems, devices, techniques, water, pre-sprays, products and related methods and apparatuses that will be used in the franchise business to clean carpets, flooring and other household surfaces.~~

~~ZIP is the owner of the Patents and licenses the exclusive right to use the Patents (along with the other Franchise IP). The license agreement with ZIP is dated January 1, 2020 and, subject to the terms of the agreement, is of perpetual duration. There are no limitations on our use of the Patents.~~

~~In addition, the ZEROREZ equipment package is proprietary and was developed exclusively for use in the ZEROREZ Franchise system. We claim copyright and common law rights in our Manuals and our~~

advertising and promotional materials, none of which are currently registered with the United States Copyright Office.

There are no agreements currently in effect that significantly limit our rights to use or license these copyrights or common law rights in any manner material to this franchise organization, nor are there any effective determinations of the United States Copyright Office or any court regarding any of the copyrighted material. We do not know of any infringing uses that could materially affect your use of these copyrighted materials in any state. We are not required by any agreement to protect or defend any copyrights or confidential information, although we will do so if taking that action is in the best interest of the ZEROREZ System. The Manuals are provided to you on loan during the term of the Franchise Agreement. You will receive one copy of the Manuals per franchise and must sign a receipt when you receive it. These copyright and common law rights are primarily to protect our proprietary interests in these materials.

During the term of the Franchise Agreement, you will be exposed to proprietary information, including trade secrets that we have developed. This information includes our Manuals and subsequent revisions, our advertising and marketing methods and strategies, sources of supply, operating methods, cleaning techniques and products, equipment specifications, service standards, sales techniques, national account relationships or affiliations, expansion plans and other facets of the ZEROREZ System. The Franchise Agreement requires you to maintain the confidentiality of this information at all times and to prevent unauthorized persons from getting access to it. This information remains our property at all times. You must also take all appropriate precautions to prevent unauthorized copying or disclosure of any confidential information by your employees or agents. The precautions include restricting access to the information on a "need to know" basis. You must have management personnel execute a non-disclosure agreement, the form, of which we must approve, to ensure that they maintain the confidentiality of the information.

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

While we recommend that you participate in the operation of your business, you are under no obligation to do so. However, a minimum of two persons who can serve as manager must successfully complete our training program and must always directly supervise the business. The manager is not required to have any ownership interest in your business. However, we hold you personally responsible for the day-to-day management of the business and you will sign a Guaranty that will individually bind you and your partners to all covenants, obligations and commitments contained in the Franchise Agreement. We will require you, your managers, technicians, employees and any other persons affiliated with you who come in contact with confidential information to sign a confidentiality agreement in the form attached as Schedule E to the Franchise Agreement. Upon termination or expiration of your Franchise Agreement, ownership of all customers and customer lists will vest in us, and you will be required to turn over to us all of your customer lists. You will be prohibited for a period of at least 18 months from providing any services of the nature provided by ZEROREZ for any of the customers for whom you provided Services.

ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and provide the Services we require. You have no right to add additional services under your ZEROREZ franchise or use other equipment unless we agree in writing. In providing the Services that we authorize, you may only use equipment, materials, supplies, uniforms, forms, and products specified and/or approved by us as meeting our standards and specifications. See Items 8, 9 and 11 for details. We have the right to change our System as we reasonably deem appropriate for the benefit of franchisees, and you must operate your franchise in compliance with our System as modified from time to time. You are authorized to sell specific cleaning products we authorize as part of the Franchise Business. You are not permitted to sell any products other than products we have approved for sale.

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

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the Franchise Agreement and related agreements. You should read these provisions in the agreements attached to this DISCLOSURE DOCUMENT.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Length of the franchise term	Paragraph 1.2	10 years from date of Franchise Agreement
b. Renewal or extension of the term	Paragraph 1.2	If you are in good standing, upon expiration of your original franchise agreement, you will have the right to renew your franchise for another 10 year term, provided you sign the then current franchise agreement and pay a fee equal to 25% of the then current franchise fee. This means that you may be asked to sign an agreement with terms and conditions that are materially different from those in your original agreement.
c. Requirements for franchisee to renew or extend	Paragraph 1.2	Compliance with Franchise Agreement during entire term, providing written notice of intent to renew, signing the then current franchise agreement (meaning that you may be asked to sign an agreement with terms and conditions that are materially different from those in your original agreement); paying the required renewal fee equal to 25% of the then current franchise fee; and compliance with the then current qualifications and training requirements.
d. Termination by franchisee	Paragraph 13.2	If we fail to comply with any substantial term of the Franchise Agreement and fail to cure the breach within thirty (30) days of your written notice of the breach.
e. Termination by franchisor without cause	Paragraph 1.2	Only upon expiration of the current term if not renewed by you.
f. Termination by franchisor with cause	Paragraphs 13.4, 13.5 and 13.6	We can terminate if you engage in any of the stated prohibited activities, fail to pay any sum due to us, cease to be engaged in business or engage in any activity inconsistent with the provisions of the Franchise Agreement.
g. "Cause" defined - curable defaults	Paragraphs 13.5 and 13.6	You have thirty (30) days to cure non-payment of sums due us and other operational deficiencies.
h. "Cause" defined – non-curable defaults	Paragraph 13.4	Non-curable defaults: improper assignment of the Franchise Agreement, cessation of operation of business, commission of fraud or misrepresentation, making of false statements, acts inconsistent with a ZEROEZ franchise operation or the System.
i. Franchisee's obligations on termination/non-renewal	Section 14	Cessation of use of ZEROEZ system, confidential information, and Marks, return EOW Generator, return all manuals and advertising materials, cessation of use of all telephone lines including classified or yellow pages advertising associated with the telephone numbers, cessation of use of radio or television advertising and assignment to ZEROEZ of rights to that advertising, payment of all sums owed to us and/or to local advertising cooperative(s), sell us your inventory upon our request.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
j. Assignment of contract by franchisor	Paragraph 12.5	There is no restriction on our right to assign.
k. "Transfer" by franchisee—defined	Paragraph 12.1	Includes sale of your business or of all or substantially all of the assets of your business, transfer of contract, stock, partnership interest, or other interest in franchise and any pledge or mortgage of the Franchise Agreement.
l. Franchisor approval of transfer by franchisee	Paragraph 12.1	ZEROREZ has the right to approve all prospective transferees.
m. Conditions for franchisor approval of transfer	Paragraph 12.3	Your franchise is open and operating; you have paid all your obligations to us, your creditors and government agencies; you are not in default under the Franchise Agreement; new franchisee qualifies and completes training; then current agreement signed by new franchisee; transfer fee paid; general release executed.
n. Franchisor's right of first refusal to acquire franchisee's business	Paragraph 12.2	ZEROREZ can match any offer for your business.
o. Franchisor's option to purchase franchisee's business	Paragraphs 12.2 and 14.2	ZEROREZ has a right of first refusal (see "17.n" above). ZEROREZ also has the right, but not the obligation, upon notice to you within thirty (30) days of the effective date of termination or nonrenewal of your franchise, to purchase at fair market value the Mobile Unit and equipment, the EOW generator, and all other physical assets (excluding real property and personal assets used in the Franchised Business).
p. Death or disability of franchisee	Paragraph 12.4	Franchise must be transferred by estate to approved buyer within twelve (12) months.
q. Noncompetition covenants during the term of the franchise	Paragraph 8.2	No involvement in any competitive business in the Territory's DMA during term and for a period of eighteen months.
r. Noncompetition covenants after the franchise is terminated or expires	Paragraph 8.2	No involvement in any competitive business in the licensed Territory for a period of eighteen (18) months; no competing services to be provided to customers for eighteen (18) months
s. Modification of the agreement	Paragraphs 15.4 and 15.5	No modifications generally unless in writing signed by both parties, but ZEROREZ System and Manuals subject to change by ZEROREZ in our sole discretion.
t. Integration/merger clause	Paragraph 15.4	Only the terms of the Franchise Agreement and other related agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Paragraph 15.10	Arbitration is mandatory and, except for certain claims, must be conducted in Utah, subject to applicable state law.
v. Choice of forum	Paragraph 15.9	Litigation must be filed in Utah, subject to applicable state law.
w. Choice of law	Paragraph 15.9	Utah law applies, subject to applicable state law.

ITEM 18. PUBLIC FIGURES

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

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC 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:

- a) a franchisor provides the actual records of an existing outlet you are considering buying; or
- b) 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.

The following tables present unaudited information about the revenues, certain expenses and EBITDA (earnings before interest, taxes, depreciation, amortization and impairment charges) of certain Zerorez franchise operations from each participating franchisee's operations for the year ~~2018~~2019 (the "**Operational Period**"). ~~The numbers below are collected from in Tables 1 and 2 below are separated based on the population of the franchisee territory. Table 1 represents franchisees in markets with less than one million in population in their market area, at least one year of operating history and that employed at least one full-time technician as this group of franchisees has market population characteristics similar to those you will likely be operating in as a franchisee operated during the Operational Period. Table 2 represents franchisees in markets with more than one million in population in their market area, at least one year of operating history, and that operated during the Operational Period. The population is determined by the 2010 U.S. Census. The numbers presented in Table 3 represent the average percentage of total Gross Revenues received by month to show the seasonality of the business. Your actual percentage of revenues received in any given month may vary.~~

TABLE 1

Franchises with less than one million in population in market area, at least one year of operating history and that ~~employed at least one full-time technician~~ operated during the Operational Period

~~The information was collected by Zerorez personnel and is unaudited. Zerorez has 5056 total franchisees, 4720 of which are included in the information below Table 1. The information included in the following tables Table 1 does not include information from 3336 of the franchises because such franchisees had less than one year operating history, more than one million in population in their market area, and/or that did not employ full-time technicians operate during the Operational Period. Data from all 4720 franchisees that meet the criteria are included in the numbers below. The franchises not included did not report numbers to us. Eight Table 1. Nine of the 4720 (or 4745%) franchisees represented in the table below Table 1 actually attained or surpassed the average results. The numbers presented in Table 2 represent the average percentage of total Gross Revenues received by month to show the seasonality of the business. Your actual percentage of revenues received in any given month may vary.~~

TABLE 1

	Average Revenue and EBITDA for the Fiscal Year				
	<u>Average % of Gross Revenues²</u>	Average	Median	High	Low
Gross Revenues ¹	100%	\$959,683,998,182	\$511,916,658,349	\$3,579,232,782,186	\$145,485,118,542

Costs of Goods Sold ³	39.238.5%	\$376,129,384,706	\$251,045,339,713	\$1,298,625,131,992	\$86,645,37,788
Gross Profit ⁴	60.861.5%	\$583,554,613,476	\$260,904,318,636	\$2,280,607,2,466,194	\$58,840,80,754
Advertising & Marketing ⁵	18.619.9%	\$178,655,198,178	\$144,184,243,749	\$480,340,477,543	\$28,152,73,294
General Administrative Expenses ⁶	29.329.8%	\$280,959,297,487	\$65,230,135,867	\$889,631,995,460	\$62,881,115,497
EBITDA ⁷	42.911.8%	\$123,944,117,811	\$51,490(60,980)	\$910,636,993,191	(\$32,193(108,037))

Average Gross Revenues per Mobile Unit per Month: \$15,695

Average Number of Mobile Units in January 2019: 5

Average Number of Mobile Units in December 2019: 6

Percentage Change in Number of Mobile Units in 2019: 25.5%

TABLE 2

Franchises with more than one million in population in market area, at least three years of operating history and that operated during the Operational Period

Zerorez has 56 total franchisees, 27 of which are included in the information below. The information included in Table 2 does not include information from 29 of the franchisees. Data for 28 franchisees is not included because such franchisees had less than one year operating history, less than one million population in their market area, and/or that did not operate during the Operational Period. One franchisee that meets the criteria to be included did not report its numbers to us and is not represented in the data. As such, data from 27 of the 28 franchisees that meet the criteria are included in Table 2. Nine of the 27 (or 33%) franchisees represented in Table 2 actually attained or surpassed the average results.

Average Percentage of Total Gross Revenue by Month (Seasonality) and EBITDA for the Fiscal Year

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
A	B	F	R	Y	A	J	Average % of Gross Revenue es ²	Average	Median	High	Low
6.2%	6.4%	8.0%	7.7%	9.4%	9.3%	8.8%	9.4%	\$3,459,325	\$1,893,957	\$1,409,648	\$2,681,120
<u>Costs of Goods Sold³</u>							40.7%	\$1,406,799	\$782,315	\$5,292,069	\$112,195
<u>Gross Profit⁴</u>							59.3%	\$2,052,526	\$1,111,643	\$8,804,679	\$155,924
<u>Advertising & Marketing⁵</u>							16.3%	\$563,895	\$318,631	\$1,726,067	\$73,172
<u>General Administrative Expenses⁶</u>							31.1%	\$1,077,180	\$512,435	\$4,711,529	\$82,718
<u>EBITDA⁷</u>							11.9%	\$411,450	\$280,577	\$2,367,083	\$34

Average Gross Revenues per Mobile Unit per Month:	\$ 14,580 <u>19,147</u>
Average Number of Mobile Units in January 2018 <u>2019</u> :	51 <u>14</u>
Average Number of Mobile Units in December 2018 <u>2019</u> :	61 <u>6</u>
Percentage Change in Number of Mobile Units in 2018 <u>2019</u> :	11.97 <u>.9</u> %

TABLE 3

Average Percentage of Total Gross Revenue by Month (Seasonality)

<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
<u>6.4%</u>	<u>6.1%</u>	<u>7.4%</u>	<u>8.4%</u>	<u>9.2%</u>	<u>9.0%</u>	<u>9.2%</u>	<u>9.5%</u>	<u>8.5%</u>	<u>9.6%</u>	<u>9.5%</u>	<u>7.4%</u>

Item 19 Notes

- (1) **Gross Revenues.** As used herein “**Gross Revenues**” means that aggregate amount of all sales of Zerorez products and Services made and rendered in connection with the operation of a Zerorez franchise, excluding all federal, state or municipal sales or use taxes collected from customers and paid to the appropriate taxing authority.
- (2) **Percentage of Gross Revenues.** This column lists the percent of Gross Revenues that each category represents.
- (3) **Costs of Goods Sold.** Costs of Goods Sold include the actual price paid for products, chemicals and all items used in a Zerorez franchise operation. Costs of Goods Sold also include customer refunds, cash discounts, charges for damaged products and other waste, as well as drop charges, packaging and shipping charges, certain supplies and other goods. Also not reflected in either Costs of Goods Sold or General Administrative Expenses below, is compensation paid in cash distributions taken by the owner(s) of each Zerorez franchise.
- (4) **Gross Profit.** This is Gross Revenues minus Costs of Goods Sold as such terms are defined and described herein.
- (5) **Advertising and Marketing Expenses.** These include all costs of marketing and advertising in a Zerorez franchise, such as, radio, print, television ad other advertising media as well as fliers, point of sale advertising, etc.
- (6) **General Administrative Expenses.** These expenses include cost of utilities (water, gas, disposal, HVAC, telephone, etc.), sales tax, franchise fees, royalty fees, bank charges, computer equipment, rental fees, fines, rental costs, employee costs, postage, property, automobile and liability insurance, uniforms, employee recruitment but do not include compensation paid in cash distributions taken by the owner(s) of each Zerorez franchise.
- (7) **EBITDA.** This means earnings before interest, taxes, depreciation, amortization and impairment charges

Except as outlined above we do not furnish or authorize our salespersons to furnish any oral or written information to prospective franchisees concerning the actual or potential sales, costs, income or profits of a ZEROREZ franchise. Substantiation of all data illustrated above will be made available to you upon reasonable demand.

Some outlets have sold or earned this amount. Your individual results may differ. There is no assurance that you'll sell or earn as much. Each franchise's results may vary based on many factors including your own business acumen, location, demographics or other factors.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

TABLE 1: SYSTEM-WIDE OUTLET SUMMARY FOR (FISCAL) YEARS 2016 TO 2019

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2016	44	45	+4
	2017	45	48	+3
	2018	48	50	+2
	2019	50	56	+6
Company Owned	2016	1	0	-1
	2017	0	0	0
	2018	0	1	+1
	2019	1	2	+1
Total Outlets	2016	42	45	+3
	2017	45	48	+3
	2018	48	51	+3
	2019	51	58	+7

TABLE 2: TRANSFER OF OUTLETS FROM FRANCHISEE TO NEW OWNERS (OTHER THAN THE FRANCHISOR) FOR (FISCAL) YEARS 2016 TO 2019

State	Year	Number of Transfers
Florida	2016	0
	2017	0
	2018	1
	2019	0
Georgia	2016	0
	2017	0
	2018	1
	2019	0
North Carolina	2016	1
	2017	0
	2018	0
Texas ¹	2016	0
	2017	1
	2018	0
	2019	0
Washington	2016	1
	2017	0
	2018	0
	2019	0
Total	2016	2

State	Year	Number of Transfers
	2017	1
	2018	2
	2019	0

Note 1 – Our affiliate, Zerorez Texas, Inc. transferred the Zerorez Austin franchise to the owner of the Zerorez Las Vegas franchise in 2017.

TABLE 3: STATUS OF FRANCHISED OUTLETS FOR (FISCAL) YEARS ~~2016~~2017 TO ~~2018~~2019

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by franchisor	Ceased operations other reasons	Outlets at End of Year
Alabama	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Arizona	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
California	2016	4	4	0	0	0	0	5
	2017	5	0	0	0	0	0	5
	2018	5	0	0	0	0	0	5
	<u>2019</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
Colorado	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	1	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Florida	2016	4	4	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
Georgia	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by franchisor	Ceased operations other reasons	Outlets at End of Year
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Idaho	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Indiana	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Iowa ¹⁴	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
Kentucky	2016	0	0	0	0	0	0	0
	2017	0	0	0	0	0	0	0
	2018	0	1	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Massachusetts	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	1	0
	<u>2019</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Michigan	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2018</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2019</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Minnesota	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Missouri	2016	4	4	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by franchisor	Ceased operations other reasons	Outlets at End of Year
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Nebraska	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
New York	2016	4	0	0	0	0	0	4
	2017	4	0	0	0	0	0	4
	2018	4	4	0	0	0	0	2
Nevada	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
New York	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	1	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
North Carolina	2016	2	0	0	0	0	0	2
	2017	2	1	0	0	0	0	3
	2018	3	0	0	0	0	0	3
	<u>2019</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
North Dakota ²	2017	0	0	0	0	0	0	0
	2018	0	0	0	0	0	0	0
	<u>2019</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Ohio	2016	0	0	0	0	0	0	0
	2017	0	1	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by franchisor	Ceased operations other reasons	Outlets at End of Year
Oklahoma	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Oregon	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Pennsylvania	2016	0	4	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
South Carolina	2016	4	4	0	0	0	0	2
	2017	2	1	0	0	0	0	3
	2018	3	0	0	0	0	0	3
	<u>2019</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Tennessee	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Texas ¹³	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2
	<u>2019</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Utah	2016	4	0	0	0	0	0	4
	2017	4	0	0	0	0	0	4
	2018	4	0	0	0	0	0	4
	<u>2019</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
Virginia	2016	2	0	0	0	0	0	2
	2017	2	0	0	0	0	0	2
	2018	2	0	0	0	0	0	2

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by franchisor	Ceased operations other reasons	Outlets at End of Year
	<u>2019</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Washington	2016	3	0	0	0	0	0	3
	2017	3	0	0	0	0	0	3
	2018	3	0	0	0	0	0	3
	<u>2019</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Wisconsin	2016	4	0	0	0	0	0	4
	2017	1	0	0	0	0	0	1
	2018	1	0	0	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Totals	2016	44	4	0	0	0	0	45
	2017	45	3	0	0	0	0	48
	2018	48	3	0	0	0	1	50
	<u>2019</u>	<u>50</u>	<u>8</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>56</u>

Note 1 – The Zerorez franchise in Cedar Rapids, Iowa is temporarily closed and did not operate during 2019 and may open in the future. The franchise owner operates the franchise in Des Moines, Iowa and is still in the system.

Note 2 – This franchise is located in Minnesota, but its territory and operations are primarily in North Dakota, so it is listed as being in North Dakota for purposes of Item 20.

Note 13 – Our affiliate, Zerorez Texas, Inc. owns and operates Zerorez Dallas. The contact information for this franchise location can be found in Exhibit D.

TABLE 4: STATUS OF COMPANY OUTLETS FOR YEARS ~~2016~~2017 TO 2018~~2019~~

State	Year	Outlets at Start of Year	Outlets Opened	Outlets re-acquired from franchisee	Outlets closed	Outlets sold to franchisee	Outlets at End of Year
California	2016	4	0	0	0	4	0
	2017	0	0	0	0	0	0
	2018	0	0	0	0	0	0
New York	2017	0	0	0	0	0	0
	2018	0	0	0	0	0	0
	<u>2019</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
Oklahoma	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0
	2018	0	1	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Totals	2016	4	0	0	0	4	0
	2017	0	0	0	0	0	0
	2018	0	1	0	0	0	1
	<u>2019</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>

TABLE 5: PROJECTED OPENINGS AS OF DECEMBER 31, ~~2018~~2019 (LAST DAY OF FISCAL YEAR)

State	Franchise agreements signed but outlet not opened	Projected new franchised outlets in the next fiscal year	Projected new company-owned outlets in the next fiscal year
<u>Alabama</u>	<u>0</u>	<u>1</u>	<u>0</u>
California	0	1	0
Florida	<u>20</u>	2	0
Idaho	0	4	0
Illinois	0	4	0
Michigan	4	4	0
Nevada	0	1	0
<u>New Mexico</u>	<u>1</u>	<u>0</u>	<u>0</u>
North Carolina	0	<u>40</u>	<u>01</u>
North Dakota	4	4	0
<u>Ohio</u>	<u>1</u>	<u>0</u>	<u>0</u>
Oregon	0	1	0
<u>Pennsylvania</u>	<u>0</u>	<u>1</u>	<u>0</u>
<u>Tennessee</u>	<u>0</u>	<u>1</u>	<u>0</u>
Texas	4	4	4
Utah	0	4	0
Washington	4	4	0
<u>Virginia</u>	<u>0</u>	<u>0</u>	<u>1</u>
Wyoming	0	1	0
Total	<u>62</u>	<u>449</u>	<u>42</u>

Attached as Exhibit D is a list of the names, addresses, and telephone numbers of all current franchisees. One franchisee voluntarily ceased to do business in 2019. No other franchisees had his or her franchise rights terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the license agreement during the previous ~~twelve months~~ calendar year. One Franchisee transferred its franchise to a ~~new owner~~ us and is no longer in the system. The contact information for such franchisees are listed on Exhibit D. ~~One additional franchisee transferred a franchise to a new owner but remains in the system.~~ No franchisee has not communicated with us or our representative within the last 10 week period.

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

In some instances, current and former franchisees sign provisions restricting their ability to speak only about their experience with ZEROREZ. You may wish to speak with current and former franchisees, but be aware that not all such ~~franchisee~~ franchisees will be able to communicate with you.

Franchisee Associations

We have created and support the ZEROREZ FAC, which consists of four representative franchisees, elected for a two or three-year term by our franchisees and one ZEROREZ appointed corporate representative. The FAC can be contacted as follows:

Rick Arnold, Chairman
1809 West State Street, Building B-2
Pleasant Grove, Utah 84062
~~12577 South 265 West Suite 3A~~
~~Draper, UT 84020~~
(801) 443-1034

ITEM 21. FINANCIAL STATEMENTS

Our financial statements for the years ended December 31, 2019, 2018, and 2017, ~~and 2016~~ are attached as Exhibit C.

ITEM 22. CONTRACTS

Exhibit B of this Disclosure Document is the ZEROREZ Franchise Agreement, including the applicable Schedules.

- Schedule A: Operating Territory, Initial Franchise Fee and Minimum Royalty Fee
- Schedule A-1: Operating Territory Map
- Schedule B: List of Partners, Owners and Shareholders of Franchisee Owning more than 20% of Franchisee
- Schedule C: Authorization Agreement for Prearranged Payments (Direct Debits)
- Schedule D: Guaranty
- Schedule E: Confidentiality Agreement
- Schedule F: Promissory Note

ITEM 23. RECEIPT

The last page of this Disclosure Document (Exhibit F) is a detachable document prepared in duplicate, acknowledging receipt of the Disclosure Document by the prospective franchisee. You must sign both copies. Keep one copy for your records. Please return the other copy to us by mailing it to ZEROREZ Franchising Systems, Inc., at ~~12577 S. 265 W., Draper, UT 84020~~1809 West State Street, Building B-2, Pleasant Grove, Utah 84062, or by faxing a copy of the signed receipt to ZEROREZ Franchising Systems, Inc. at (801) 443-1034.

EXHIBIT A

STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

This list includes the names, addresses and telephone numbers of state agencies having responsibility for franchising disclosure/registration laws, and serving as our agents for service of process (to the extent that we are registered in their states).

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
California	Commissioner of the Department of Business Oversight	320 West 4 th Street, Suite 750 Los Angeles, CA 90013-2344 (866) 275-2677
Hawaii (State Administrator)	Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch	335 Merchant Street Room 203 Honolulu, HI 96813 (808) 586-2744
Illinois (State Administrator)	Illinois Attorney General	500 South Second Street Springfield, IL 62706 62701 (217) 782-4465
Indiana (State Administrator)	Indiana Securities Commissioner Securities Division	302 West Washington Street, Room E111 Indianapolis, IN 46204 (317) 232-6681
Indiana (Agent)	Indiana Secretary of State	302 West Washington Street, Room E111 Indianapolis, IN 46204 (317) 232-6681
Maryland (State Administrator)	Office of the Attorney General Division of Securities	200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6300
Maryland (Agent)	Maryland Securities Commissioner	200 St. Paul Place 20 th Floor Baltimore, MD 21202-2020 (410) 576-6360
Michigan	Michigan Attorney General's Office Consumer Protection Division Attn: Franchise Division	Williams Building, 7th Floor 525 West Ottawa Street Lansing, MI 48909 (517) 335-7622
Minnesota	Commissioner of Commerce Minnesota Department of Commerce	85 7th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 539-1638
New York (State Administrator)	NYS Department of Law Investor Protection Bureau	28 Liberty Street 21 st floor New York, NY 10005 (212) 416-8236
New York (Agent)	New York Secretary of State New York Department of State	One Commerce Plaza 99 Washington Avenue, 6 th Floor Albany, NY 12231-0001

STATE	STATE ADMINISTRATOR/AGENT	ADDRESS
North Dakota (State Administrator)	North Dakota Securities Department	600 East Boulevard Avenue State Capitol, 5 th Floor, Dept. 414 Bismarck, ND 58505-0510 (701) 328-2910
North Dakota (Agent)	Securities Commissioner	600 East Boulevard Avenue, State Capitol, 5 th Floor Bismarck, ND 58505-0510 (701) 328-2910
Rhode Island	Director, Department of Business Regulation, Securities Division	1511 Pontiac Avenue Building 69-42 Cranston, RI 02920 (401) 462-9500
South Dakota	Division of Insurance Securities Regulation	124 South Euclid, Suite 104 Pierre, SD 57501 (605) 773-3563
Virginia (State Administrator)	Virginia State Corporation Commission Division of Securities and Retail Franchising	1300 East Main Street, 9th Floor Richmond, VA 23219-3630 (804) 371-9051
Virginia (Agent)	Clerk of the State Corporation Commission	1300 East Main Street, 1st Floor Richmond, VA 23219-3630
Washington	Department of Financial Institutions Securities Division	150 Israel Road SW Tumwater, WA 98501 (877) 746-4334
Wisconsin	Commissioner of Securities	Department of Financial Institutions Division of Securities 4822 Madison Yards Way, 4 th Floor Madison, WI 53705-9100 (608) 261-9555

EXHIBIT B
FRANCHISE AGREEMENT

ZEROREZ FRANCHISING SYSTEMS, INC.

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (this "**Agreement**") is between ZEROREZ Franchising Systems, Inc. (hereinafter referred to interchangeably as "**Franchisor**", the "**Company**", "**ZEROREZ**", "**us**" or "**we**"), a Nevada corporation, with its principal place of business located at ~~42577 South 265 West, Suite 3A, Draper, UT 84020~~ 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062, and _____ d/b/a Zerorez of _____ ("**Franchisee**" or "**you**"), a (n) _____, whose principal address is _____ made and entered into effective the ___ day of _____, of the year 201__ (the "Effective Date").

RECITALS

- A. ~~The Company has the right, through an exclusive, perpetual license agreement to utilize and license certain trademarks, service marks, logos, commercial symbols and such other names and marks as it may designate, or at a later time register, license or designate (collectively, the "**Marks**") that relate to the operation of a Zerorez branded franchise and are used by us in identifying, promoting, advertising, and marketing various floor and fabric care services;~~
- A.B. The Company has expended considerable time, effort and money in developing a distinctive business format and methodology for the operation of a floor and fabric care business that uses the Marks ~~(as defined below) and the Company's~~ methods of operation and management, brand standards, specifications, confidential information, procedures, record keeping techniques, materials and Manuals (hereinafter referred to as the "**System**"); all of which is subject to change, improvement, and further development from time to time by the Company.
- B. ~~The Company owns the entire right, title and interest, together with all the goodwill connected therewith, in various trademarks and service marks, including the name and symbol ZEROREZ, which are used by us in identifying, promoting, advertising, and marketing various floor and fabric care services (hereinafter referred to as the "**Marks**").~~
- C. You have read this Agreement and the Company's Franchise Disclosure Document for prospective franchisees (the "**Franchise Disclosure Document**") and understand the importance that these terms and conditions have in maintaining the System's high brand standards of quality and service protecting the Company's rights in the Marks and the goodwill associated with the Marks. You acknowledge that you have independently investigated the risks of operating a business based upon the System, including current and potential market conditions, competitive factors and risks, and have made an independent evaluation of all material facts surrounding the operation of a floor and fabric care business utilizing the System and Marks. You acknowledge that you have been granted a license to operate a Franchised Business (as defined below) and to use the System because of your commitment to abide by the procedures, policies, rules and regulations associated with a ZEROREZ franchise and to conform your Franchised Business to the System.
- D. You understand that the fundamental feature of a franchise system is a consistent method of operation at all franchises within the franchise system. You understand that as a franchisor, the Company has the right to evaluate the ZEROREZ concept and to adapt it to changing business conditions, industry changes, and changes necessary to meet the demands of customers. The Company intends to develop and test new services for sale, marketing programs and operating procedures to enhance the consistency of operation and customer service at the ZEROREZ franchise you operate. During the term of this Agreement, the Company expects changes to occur in the System, based upon its management's determinations. As a franchisee, you are bound to operate your franchise in accordance with the System as it now exists and as it may change from time to time.

- E. The parties intend for this Agreement to be implemented in a fair and reasonable manner and that all of its provisions be interpreted accordingly and consistently applied in a commercially reasonable manner designed to increase the quality and profitability of the products and services offered, and that the recitals set forth herein be mutually binding upon the parties.
- F. You understand that we have regional developers who act as special agents for ZEROREZ in specific markets. If your Operating Territory is now or in the future is part of a regional developer's territory, you understand that you must contract with the regional developer for call center support, pay your pro rata share of all approved marketing and advertising expenditures, and that regional developer may perform any required services under the terms of this Agreement on our behalf.

1. GRANT AND TERM

1.1 Grant of License

- (a) Subject to all the terms and conditions of this Agreement, the Company hereby grants to you an exclusive right to conduct and operate a ZEROREZ business for residential and commercial customers using the System, Marks, and the Company's distinctive methods of operation (the "**Franchised Business**") within, and only within, the area described in Schedule A attached hereto (the "**Operating Territory**"). The Operating Territory is described on the map attached to Schedule A, and is comprised of approximately _____ people. Depending on population densities and other factors, there may be more than one Operating Territory within any particular market, geographic region or location, each of which may be owned by a different ZEROREZ franchisee. You have the exclusive right to conduct the Franchised Business within the Operating Territory. You also have a non-exclusive right to offer ZEROREZ products and services to residential customers outside your Operating Territory in any location that is within the same market area as your Operating Territory but that is not within the exclusive Operating Territory of any other present or future franchisee. You may only offer ZEROREZ products and services to non-residential customers outside your Operating Territory with the Company's prior written consent. You acknowledge that the Company may, in the future, grant to another franchisee an exclusive license to territory that is outside your exclusive Operating Territory but that is within the market area in which your exclusive Operating Territory is located, and that in such event you will be required to cease doing business in that newly created exclusive Operating Territory belonging to another franchisee. You acknowledge that the cleaning fluid technology that is part of the System belongs to EAU Technologies, Inc. ("**EAU**"), a Delaware corporation, is comprised in Patent No. 6,638,364 (the "**Patent**") and that your rights to use the fluid technology and benefit from the protection of the Patent are derived from EAU pursuant to an exclusive license agreement between EAU and the Company. Pursuant to the license agreement between EAU and the Company, certain proprietary technology relating to the cleaning fluid will be held in escrow so that it will be available to you and other franchisees in the event EAU becomes insolvent, bankrupt or ceases doing business.
- (b) In addition to additional territory that may be purchased through an Additional Territory Fee set forth in Section 2.1 at the time you enter into this Agreement, and provided that you have met your business development quotas as set forth in Section 2.8, and that you have not defaulted in any of the terms of this Agreement and that you are current on all payments and other obligations to ZEROREZ, upon the Company's approval, which may be granted or denied in the Company's sole discretion, you may purchase additional territory(ies) contiguous to your exclusive Operating Territory or within the same unified market as your exclusive Operating Territory. Such additional territory may not include a population that would make the total population in your Operating Territory exceed 900,000 people, as determined by the 2010 U.S. Census (the "**Census**"), without the Company's prior written approval. Any such additional territory you purchase will be added to your exclusive Operating Territory. If you desire to purchase additional territory, you must notify the

Company in writing of your intention to purchase such territory. The Company will have thirty (30) days thereafter to determine if you qualify to purchase additional Operating Territories, and to approve of any such purchase, which may be granted or denied in its sole discretion. The purchase price to existing franchisees for new territory will be calculated using the same formula used to calculate the Additional Territory Fee, as set forth in Section 2.1. In the event two or more franchisees desire to purchase the same additional territory within a unified market, the priority of the competing rights will be determined by the dates on which each franchisee commenced business operations within the unified market, with the first franchisee in a given unified market receiving the first right to purchase the territory, the second franchisee in the unified market receiving the second right to purchase the territory, and so forth.

You will not be allowed to purchase additional territory that is not contiguous to your exclusive Operating Territory or within the same market area as your exclusive Operating Territory without our prior approval.

1.2 Term

The term of this Agreement will begin on the Effective Date and shall continue for a period of ten (10) years (the "**Term**"). You may, at your option and with payment of a fee equal to 25% of the then current Initial Franchise Fee, renew this Agreement for one additional term of 10 years subject to meeting all of the following conditions prior to such renewal:

- (a) You must give us written notice of your intent to renew not less than six (6) months or more than twelve (12) months prior to the expiration of the then current Term, provided, however, that the Company will not terminate this Agreement at the end of the then current term until it has given you written notice of its intention to terminate this Agreement at least fifteen (15) days prior to the end of the then current Term and you will have fifteen (15) days thereafter to renew;
- (b) You must not be in material violation of any provision of this Agreement or any amendment or any other agreement between you and the Company or its affiliates; and you shall have substantially complied with the terms and conditions of such agreements during the then current term;
- (c) You will have satisfied all monetary obligations owed by you to the Company and its affiliates;
- (d) You will execute our then current franchise agreement which may contain terms and conditions that are materially different from those in your original agreement, and which may include an increased royalty payment; and
- (e) You will comply with the Company's then current qualifications and training requirements; provided such qualifications and training requirements are reasonably required to operate the Franchised Business and are generally applied to all similarly situated franchisees.

1.3 Commitment to Develop Operating Territory

By granting you exclusive rights to the System and the Marks for the Operating Territory, you agree as follows:

- (a) to use commercially reasonable efforts to develop demand for the services offered at your franchised business and to service your customers, all in accordance with the standards and policies established by the Company;

- (b) the Operating Territory is reasonable and sufficient in size and scope to support the Franchised Business;
- (c) you have no rights to the System or Marks outside the Operating Territory without the Company's express written consent; and
- (d) you agree that the financial requirements for local, regional and national advertising as described in this Agreement are reasonable.

1.4 Reserved Rights

Notwithstanding the rights granted to you under this Agreement, the license granted under this Agreement is non-exclusive, and the Company and any affiliate retain for themselves the rights not expressly granted to you, in their sole reasonable discretion, including without limitation:

- (a) to establish, and grant other franchisees or licensees the right to establish, Franchised Businesses anywhere outside the Operating Territory;
- (b) to market and sell products bearing the Marks which are similar to those offered through the Franchised Business through any and all potential distribution channels including, without limitation, distributors, dealers, retail outlets, and via e-commerce via the Internet or other electronic media, provided that the Company does so in a manner that is intended to benefit the Company's franchisees;
- (c) to sell products bearing the Marks in retail stores such as supermarkets, floor covering stores, hardware stores or home centers, or other channels of distribution without regard to your exclusive Operating Territory, provided that we do so in a manner that is intended to benefit our franchisees;
- (d) to promote and/or sell products and services via e-commerce or other electronic media if we determine that such sales will benefit the ZEROREZ System and/or Marks;
- (e) to establish or acquire other franchise systems for similar or different products and services using different trademarks or service marks in your exclusive Operating Territory, or the exclusive Operating Territory belonging to any other ZEROREZ franchisee, so long as such other franchise systems are not directly competitive with the System;
- (f) to develop, and to market and sell to commercial end users a portable carpet or fabric cleaning system; and
- (g) to establish National Accounts (as defined below) in any area, including the Operating Territory; and
- (h) to enter into contracts or arrangements to provide products and/or license use of the patents and other technology used in operating a Zerorez franchise to governmental or quasi-governmental entities specifically for use in government contracts, including to government locations in your Operating Territory, for which franchisees would not qualify to provide services similar to those offered in this Agreement; provided that no services under any such arrangements would be offered using the Zerorez name or Marks.

2. FEES

2.1 Initial Franchise Fee

Upon the execution of this Agreement you will pay to the Company the initial franchise fee equal to \$39,500 (the "Initial Franchise Fee"). The Initial Franchise Fee is non-refundable. The Initial Franchise Fee includes a geographic territory as designated by the Company with a population of up to 300,000 as determined by the Census. If you and the Company agree, you may purchase an additional geographic territory, for a fee equal to \$0.10 per person in such territory as determined by the Census (the "Additional Territory Fee"). Such additional territory purchased pursuant to the Additional Territory Fee may not include a population that would make the total population in your Operating Territory exceed 900,000 people, as determined by the Census, without the Company's prior written approval. This additional territory will be part of your Operating Territory. The Additional Territory Fee you agree to pay, if any, is set forth on Schedule A. The Additional Territory Fee is fully earned upon execution of this Agreement and is non-refundable. The Additional Territory Fee is payable in twenty-four (24) or thirty-six (36) equal payments pursuant to a promissory note ("Note") with the Company, attached hereto as Schedule F. The length of the Note is determined by the population in the additional geographic territory purchased. If you purchase a territory with up to 200,000 in population, you must pay the Additional Territory Fee in twenty-four (24) payments. If you purchase a territory with 200,000 or more in population, you must pay the Additional Territory Fee in thirty-six (36) payments. The first payment under the Note is due six (6) months after execution of this Agreement.

2.2 Management Training Fee

You agree to pay the Company our then-current, annual per person fee for each member of your management team (as reasonably determined by the Company) for unlimited access to our management training library with leadership and cultural development resources to assist you in the operation of the Franchised Business. This fee is currently \$200 per person per year. The management training fee for the first year will be paid upon execution of this Agreement and each year thereafter on the anniversary of this Agreement.

2.3 Royalty

For the entire Term of this Agreement you agree to pay the Company a monthly royalty fee equal to the greater of six percent (6%) (the "**Percentage**") of the Franchised Business's Gross Sales (as defined below) or the minimum monthly royalty fee as set forth on Schedule A. If your state, or any governmental body in your state, charges the Company a tax or any other financial encumbrance on any royalty fees received by the Company from you, you agree to pay an additional amount to the Company equal to the amount of such tax. This additional amount does not apply to any federal income tax payable by the Company due to your payment of royalty fees.

Royalty fees are due and payable to the Company on or before the 15th day of each calendar month based upon the Gross Sales during the preceding calendar month. The Company will not increase your royalty fee percentage during any renewal term of this Agreement.

2.4 Gross Sales

"**Gross Sales**" shall mean the aggregate gross amount of all revenues from whatever source derived (whether in the form of cash, credit, check, agreements to pay, or other consideration including the actual value of any goods or services traded, bartered, or otherwise received by you in exchange for any form of non-monetary consideration, and whether or not payment is received at the time of service) that arise from or are derived by you or by any other person from business conducted or which originated in, on, from, or through the Franchised Business, including any and all activities undertaken by you or any agent, employee, or representative dealing with the Franchised Business and any expansion thereof as designated by Franchisor, whether such business is conducted in compliance with or in violation of the terms of the Agreement. Gross Sales do not include:

- (a) sales tax or other tax receipts, the collection of which is required by law;
- (b) refunds, allowances, adjustments or credits actually made by the Franchised Business; and
- (c) sales or disposal of used equipment under terms of Section 5.3 of this Agreement.

2.5 Monthly and Annual Statements

No later than the 15th day of each month after commencing operation of the Franchised Business you agree to deliver to the Company a profit and loss statement for the preceding month in the exact format we prescribe, and a monthly financial statement itemizing the Gross Sales, number of jobs completed and number of re-cleans during such month, and such other sales information as the Company may reasonably require and in a manner as may be specified from time to time by the Company, signed by you as certification of the accuracy of the information set forth therein. The Company has the right to require such statements to be submitted electronically via manual or automatic submittal from the operations software. In the case of electronic submission of statements, a printed statement is not required with the timely payment of royalties due and payable. The Company and the Board may alter the requirements of this section should these requirements prove to be onerous or unreasonable. Within forty-five (45) days of your calendar year-end, you agree to remit to us an annual financial statement that will include a profit and loss statement and balance sheet.

2.6 Late Fees and Interest on Overdue Accounts

You agree that all royalty payments are due and owing by the 15th of each month. If we do not receive your royalty payment, by the 20th of each month, we will assess a late penalty in the amount of two percent (2%) on the amount of the royalty payment due and payable for that billing cycle (the “**Late Fee**”). If you do remit your royalty payment by the 30th day of each monthly billing cycle, in addition to the Late Fee, we will assess interest on the entire amount owing for that specific billing cycle at the rate of two percent (2%) per month (or twenty-four percent (24%) per annum) (the “**Interest Charge**”). The Interest Charge will continue to accrue on any portion of a royalty payment that is more than thirty (30) days in arrears, until such delinquent royalty payment is paid in full, including payment of the Late Fee.

2.7 Automatic Transfer

You are required to pay any and all royalties due under this Agreement by electronic funds transfer, and you agree to perform such acts, and sign and deliver such documents as are necessary to implement such a payment program, including but not limited to the Authorization Agreement attached hereto as Schedule C. You further agree to make the required funds available for withdrawal on or before the designated payment dates.

2.8 Sales Quota

To ensure that you use your commercially reasonable efforts to promote the Franchised Business and grow the demand within the Operating Territory for the services and products you offer, the Company has set a minimum monthly royalty payment, as specified in Schedule A. You are obligated hereunder, and thus will be in material breach hereof if you fail to achieve Gross Sales equal to that amount of Gross Sales necessary to achieve the minimum monthly royalty payment for any period of six (6) consecutive months.

3. COMMENCEMENT OF BUSINESS

You will not commence business, and you will not be considered to be in full compliance with the terms and conditions of this Agreement, until you and your agents, as designated in the reasonable discretion of the Company (hereinafter referred to as “**Designated Franchisee Trainees**”), successfully complete the Company's initial training program, as described in Section 4. As time is of the essence, you agree to use your commercially reasonable efforts to cause the Designated Franchisee Trainees to complete the training in a timely manner.

You will establish business premises within the Operating Territory for the Franchised Business, which may be in a residence so long as allowed by local zoning regulations. You agree to commence offering services and products for sale to the public within the Operating Territory as soon as possible after the Effective Date, but in any event not later than four (4) months after the completion of the Company's initial training program, unless otherwise agreed in writing by the Company. This Agreement may be terminated for your failure to commence your Franchised Business as required herein. You agree that time is of the essence in the opening of the Franchised Business.

4. TRAINING AND OPERATING ASSISTANCE

4.1 Training

Prior to the commencement of your Franchised Business, we will furnish initial training on the operation of a ZEROREZ franchise to you and one or more Designated Franchisee Trainees, all of whom must complete the training. Initial training for you and up to one (1) Designated Franchisee Trainee is included in the Initial Franchise Fee. The Company reserves the right to charge a fee for the training of additional individuals. The training program shall be comprised of both in field training and classroom sessions which take place at our headquarters or at a location designated by us. Each Designated Franchisee Trainee is required to complete the entire training program to our satisfaction. If we determine that a Designated Franchisee Trainee is unable to satisfactorily complete the initial training program, you will be allowed to designate an alternate trainee to successfully complete the initial training program. After completing such training, then your Designated Franchisee Trainees will be responsible for training all non-managerial employees you hire to work in your Franchise Business. We may provide such training, at your expense, if you request such in writing and we are able to meet your request. All new or successor general managers must also complete our initial training program. You will be responsible for the expenses your Designated Franchisee Trainees incur while attending any initial training program including transportation, lodging, meals, and compensation, if any. During the term of this Agreement, we may require the Designated Franchisee Trainees and previously trained Designated Franchisee Trainees to attend additional training courses at your expense either via the Internet or at such locations and times as we may designate. We reserve the right to charge reasonable fees for these new or refresher courses.

This training program is offered and operated under our direction at our ~~Draper, UT~~ Pleasant Grove, Utah facility and on-site or at another location designated by us.

4.2 Employees

You will hire all employees in connection with your Franchised Business, including but not limited to management, clerical, sales, and service personnel, and be exclusively responsible for the terms of their employment and compensation. You will not employ anyone who refuses or fails to satisfactorily complete the training program conducted by you or us. You will not employ or continue to employ anyone who refuses to grant permission for or fails to meet our standards after a criminal background and a credit check or other procedures prior to employment conducted by a source or vendor approved by us. All of your employees charged with day-to-day operational management responsibility for the Franchised Business (including, but not limited to, your general managers) must be trained by us pursuant to Section 4.1 hereof. All of your employees must execute a

confidentiality agreement substantially in the form attached as Schedule E to this Agreement, which requires them to maintain the confidential nature of our trade secrets, confidential and proprietary information, System, and Manuals, as defined below, during the term of their employment and thereafter. You must inform us in writing promptly upon the termination of employment of any management personnel. With respect to your employees, during the Term, including any renewals thereof, you will abide by all employment laws, rules and regulations required by the federal government and the state government in the Operating Territory and you hereby agree to indemnify and hold us harmless for any breach of these obligations. Furthermore, at all times, you will ensure that you and your employees are in compliance with the tax laws promulgated by the Internal Revenue Service, the United States government and the laws of the State(s) that comprise the Operating Territory.

4.3 Confidential Brand Standards Manuals

At an appropriate point in the training program, we will loan to you one copy of our confidential brand standards manuals (“**Manuals**”). Any portion of the Manuals containing information necessary for you to complete portions of training prior to your arrival at our headquarters will be provided as needed. For purposes of this Agreement, the Manuals, which may be one or more separate manuals, also includes alternative or supplemental means of communicating such information by other media, including bulletins, e-mails, videotapes, audio tapes, compact discs, computer diskettes and CD’s. You understand and agree that we may, from time to time, change, delete, and/or add to the contents of the Manuals for the purpose of maintaining, improving, modifying, supplementing or enforcing the System. We are required to communicate such changes in electronic format only, with written versions published exclusively at our option. You agree to update your copy of the Manuals as we change, modify or amend the same and deliver to you copies of such changes, amendments or modifications. If there is a dispute relating to the contents of the Manuals, the then current version posted on our private Intranet site will be controlling. You will take the necessary steps to ensure the security of the Manuals and keep it free from theft, unauthorized copying, fire or other acts which would jeopardize damage to or disclosure of its contents.

You understand that it is necessary for you to comply strictly with the Manuals since it will regulate one or more of the following areas pertaining to your Franchised Business:

- (a) required or authorized products and services;
- (b) advertising, marketing, sales and promotional programs, and materials and media used in such programs;
- (c) specifications and standards for cleaning supplies, equipment, machinery, chemicals and office supplies, including the specifications for location and plumbing connections required for the installation of the cleaning solution generator;
- (d) terms and conditions of the sale and delivery of services;
- (e) service vehicle specifications;
- (f) staffing recommendations;
- (g) hours of operation;
- (h) employee training requirements;
- (i) insurance coverage requirements;
- (j) accounting system requirements, including the format, content and frequency of financial and performance reports to us;
- (k) computer software requirements and specifications;
- (l) designated or approved suppliers; and

- (m) inspections to be performed by us.

The Manuals are the exclusive property of the Company and are not to be copied by you or your employees or agents, except for forms and similar items included for the express purpose of copying. The Manuals shall not have the effect of changing any provisions of this Agreement or any renewal Agreement and shall not directly or indirectly require you to pay any greater fees to us greater than are required to be paid under this Agreement, and it shall not reduce or impair any of your essential rights hereunder. In the event of any conflict between the Manuals and this Agreement, this Agreement shall control.

4.4 General Guidance

At no additional cost to you, we will, at our option furnish you with advice and assistance in connection with the operation of your Franchise Business. The areas in which we may provide guidance to you include:

- (a) the operation of vehicles and equipment;
- (b) cleaning methods and procedures;
- (c) advertising and promotional programs;
- (d) conducting an annual convention for all franchisees, for which there will be no charge for up to two individuals from your Franchised Business. You will be responsible for all of your expenses while attending the annual convention; and
- (e) purchasing additional vehicles, equipment, supplies and/or materials.

This discretionary assistance may be furnished through a number of sources including the Manuals, electronic communications including e-mail and postings to our private Intranet site, written directives and bulletins, telephone support, and personal consultations at our headquarters or your business premises. You acknowledge and agree that various means of communication (e.g., electronic communication) may require you to incur expenses for communication technology, including hardware, software and access fees. At our discretion we may have one or more of our field representatives visit your location within three months of when you begin operation of your ZEROREZ business. Should you specifically request that we provide consultation in addition to the initial visit, we will provide such in any manner we feel will best benefit your Franchised Business, which may include sending a team of Zerorez professionals to work with your employees for a designated period of time. We reserve the right to charge per diem fees and other charges, including but not limited to retention of revenues generated by our personnel in your Operating Territory during such additional training periods. We may also require you to reimburse us for the travel and living expenses of our personnel.

4.5 Telephone Listings

You agree to pay all telephone company charges for telephone numbers used in the Franchised Business and to reimburse us if for any reason we have to pay any such charges. You agree not to place any restrictive codes on your advertised telephone numbers for your Franchised Business or to use any other telephone numbers in your advertising without our prior consent. You agree not to terminate any such telephone numbers during the term of this Agreement or do anything else that may directly or indirectly impede the transfer of those numbers upon any termination or expiration (without renewal) of this Agreement.

In addition, if your Operating Territory is serviced by a Regional Developer (as defined below), you agree to pay to Regional Developer call center fee under terms established by the Regional Developer for call center services using the phone number established for Zerorez franchisees in your area. This fee may not exceed a commercially reasonable fee for similar services.

Upon termination or expiration (without renewal) of this Agreement, you agree to transfer to the Company the telephone number(s) you are using in your marketing and advertising, and directory listings for your business within three (3) days after a written request by us that you do so. If you fail to do so, we will be entitled to the exclusive rights with respect to the telephone numbers and directory listings for your business. The telephone company and all listing agencies may accept this Agreement as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and as conclusive evidence of our authority to direct their transfer, without any liability to you.

In addition, you agree to sign, contemporaneously with the execution of this Agreement, such release and transfer documents as we may require authorizing us to obtain the telephone numbers of your Franchised Business upon any termination or expiration (without renewal) of this Agreement. If, during the term of this Agreement, the telephone numbers for your Business should be transferred to someone other than us, you will cooperate with us to ensure they are returned and amended, terminated or transferred as we direct you.

Should the Company cease to do business, voluntarily or involuntarily, its toll free numbers, if any, shall revert to the board's control, to be used in its sole discretion for the furtherance and protection of ZEROEZ franchisees' Franchised Businesses.

4.6 Sale and Approval of Items

The Company and its affiliates reserve the right to, directly or indirectly, by virtue of our own distribution or arrangements with third party suppliers, sell to you approved floor and fabric care equipment, supplies, uniforms, decals, chemicals, materials, forms, promotional and advertising materials. You understand that the Company and/or its affiliates may mark up the price for these items, or receive a rebate from items purchased from third party suppliers, so that the Company and its affiliates may receive a reasonable profit.

4.7 Regional Developer Assistance

You understand and acknowledge that we have regional developers who act as special agents for the Company in specific markets ("Regional Developers"). If your Operating Territory is now, or in the future, part of a Regional Developer's territory, the Regional Developer may provide, on behalf of the Company, any assistance that would otherwise be provided by the Company pursuant to this Agreement,

5. OPERATING STANDARDS AND SERVICES

5.1 Services

You will provide to residential customers exclusively and to business customers within your Operating Territory carpet, floor, fabric care, living surfaces, and restorative cleaning services, including upholstery, fabrics, hard surfaces floors, air duct cleaning and air filters, and all such services, and only those services, as authorized by the Company from time to time. These cleaning services will be performed in accordance with all procedures, policies and guidelines specified by the Company.

5.2 Supplies and Materials

You will use only equipment, machinery, cleaning supplies, cleaning solutions, materials, containers, uniforms, forms, and products approved by the Company as meeting our standards and specifications. If you propose to use any item not previously approved by us, you shall submit or have the proposed vendor submit to the Company upon our request, sufficient specifications,

samples, photographs and/or other information we request to provide for sufficient examination and testing for us to determine whether the item and its proposed supplier meet the Company's specifications, qualifications, and standards. We reserve the right to require the proposed vendor to reimburse the Company for the reasonable costs of investigating the proposed item and vendor. Our determination as to whether the item vendor meets our specifications, qualifications and standards is final. We reserve the right to limit the number of vendors for in order to achieve volume pricing for the benefit of the ZEROREZ System.

5.3 Equipment Systems

Before you commence your Franchised Business, you will be required to obtain the Zerorez equipment package for your Franchised Business from sources that are acceptable to the Company. The ZEROREZ equipment package consists of those items specified in the Manuals which may change from time to time in our sole discretion. We require our franchisees to purchase EOW Generators only from approved third party vendors. The terms of purchase and the warranty attached to your specific EOW Generator will vary depending on the EOW Generator you purchase and from which third party vendor you purchase your EOW Generator. We require that you fulfill all obligations required under the purchase of your EOW Generator. You may only purchase EOW Generators from approved third party vendors. You must notify us as to the third party vendor that supplies your EOW Generator and the terms and conditions of your purchase. You must use B Water that meets our standards as outlined in our Manuals in your operations. Failure to use such B Water will constitute a violation of this Agreement.

5.4 Standards of Service

You and your employees will give prompt, courteous, and efficient service to all customers. In all your dealings with customers, suppliers and the public, you and your employees will adhere to the highest standards of honesty, integrity, fair dealing, and ethical conduct and adhere to all service and advertising guidelines promulgated to all franchisees by us. All advertising and promotion of the Franchised Business, including the products and services offered, will be in strict compliance with the standards established by the Company, shall be completely factual, and shall conform to the highest standards of ethical advertising. You agree to refrain from any business or advertising practice(s) that may damage, injure or harm the Company, the goodwill associated with other ZEROREZ franchisees, the System, or the Marks. You agree not to deviate from the brand standards set by the Company for Franchised Business' operation as outlined in the Manuals. You shall guarantee your and your employees' services and respond promptly to all inquiries and complaints in order to achieve customer satisfaction. If in the Company's opinion it becomes necessary or appropriate for us to enter a customer's premises to inspect or correct your work, you shall reimburse us for the costs associated with such inspections or corrections within thirty (30) days of the issuance of our invoice for such costs. You acknowledge and agree that you are prohibited from subcontracting your responsibilities hereunder or the services you provide in connection with your ZEROREZ franchise without our written consent.

5.5 System Standards

You understand that your operation of the Franchised Business in accordance with the System is essential to preserve the unique qualities and aspects of the ZEROREZ franchise and the Marks and services to benefit all ZEROREZ franchisees, including you. Therefore, during the Term of this Agreement, you agree to operate the Franchise Business in accordance with the System and to comply with all of the Company's specifications, standards, and operating procedures relating to the operation of the Franchised Business including, without limitation to the following, all of which the Company reserves the right to enforce and apply specific remedies for the violation thereof (including, but not limited to termination of this Agreement) as contained herein:

- (a) methods and procedures for providing cleaning services;

- (b) the safety, maintenance, cleanliness, sanitation, function and appearance of your vehicles, equipment, accessories and signs;
- (c) requirements for the uniforms worn by, and the general appearance of, you and your employees;
- (d) the use of the Marks;
- (e) sales, marketing, advertising and promotional programs;
- (f) materials such as signs, posters, displays, brochures, flyers, forms, stationery, and other similar items;
- (g) the identification of your business as a franchisee of the Company and a licensed user of the Marks;
- (h) designated or approved suppliers, which may include the Company and/or its affiliates;
- (i) terms and conditions of the sale and delivery of products and services that you obtain from the Company, its affiliates, and/or unaffiliated suppliers;
- (j) bookkeeping, data processing, accounting, and record keeping systems, reports and forms, including the format, content and frequency of reports to us;
- (k) complying with applicable laws including, without limitation, obtaining required licenses and permits;
- (l) complying, without limitation, with all applicable environmental laws and regulations relating to the securing, possession, filing with one or more government agency, proper display, and employee notification regarding Material Safety Data Sheets, as well as the proper disposal of solutions and waste water related to the operation of the Franchised Business; and
- (m) offering all products and services that we designate as a part of a ZEROREZ franchise.

5.6 Additional Responsibilities

You specifically covenant and agree, the violation of which be enforced by the Company and may result in termination of this Agreement:

- (a) to operate your Franchised Business using only the trade name approved by the Company, and to display prominently such name on all forms, uniforms, stationery, and related materials used with the Franchised Business, and to obtain and maintain a "Certificate of Fictitious Name" for such trade name as and if required by local law in the city, county, or state where your Franchised Business is located;
- (b) to permit our agents, and us at all reasonable times, to inspect your operations as provided in Section 10.2 hereof. You shall cooperate with our representatives and render assistance to the Company as may be reasonably requested;
- (c) to adopt, use, and display for the purposes of this Agreement any changes or modifications to the System, that we may implement from time to time and that are commercially reasonable, as if they were part of the System as of the Effective Date;

- (d) to post in a conspicuous place at your business premises a notice with the following words: **"This ZEROREZ franchise is independently owned and operated under license from ZEROREZ Franchising Systems, Inc."** You agree that your invoices, purchase orders, marketing materials, and brochures will contain a similar a statement notifying the public that your Franchised Business is independently owned and operated under a license from the Company;
- (e) to establish and maintain at your own expense a bookkeeping, accounting, record keeping, and records retention system covering the Franchised Business, separate and distinct from any other business or personal records you may maintain;
- (f) to provide the Company in a manner in which we prescribe, monthly financial statements and annual financial statements relating to the Franchised Business prepared in accordance with generally accepted accounting principles consistently applied and certified by you to be complete and accurate, including balance sheets, income statements, and changes in cash position, all of which will be kept confidential by the Company;
- (g) to ensure that your principal owner and your general manager or base manager(s) complete the initial training in the operation of the Franchised Business to the Company's satisfaction. Additionally, you agree to ensure that those individuals who are trained in accordance with this Section 5.6(g) will be responsible for training your other employees. If the Company offers periodic refresher training courses, you agree to have your employees, as designated by the Company, attend at your expense, such additional training. You acknowledge that you shall be responsible for the travel, living expenses and per diem charges for your personnel who attend any training provided by the Company;
- (h) to be solely responsible for the hiring, firing and promotion of your employees, the payment of all payroll taxes and the compliance with all statutes, regulations, and ordinances relating to the employment of employees. The Company shall have no control over the terms and conditions of your employees' employment;
- (i) to fulfill your requirement to fully develop the potential of the Franchised Business in the Operating Territory, by having available a sufficient number of vehicles (each a **"Mobile Unit"**) and equipment to service promptly and adequately all customers within the Operating Territory;
- (j) to sign, contemporaneously with the execution of this Agreement or at such subsequent time as requested by us, such release and transfer documents as we may require to authorize us to transfer the advertised telephone numbers of your Business upon any termination or expiration (without renewal) of this Agreement. If, during the Term, the telephone numbers for your Franchised Business should be transferred to someone other than us, you will cooperate with us to ensure they are returned to us;
- (k) to answer your telephones (at a minimum) between 8:00 am and 6:00 p.m. Monday through Friday, and between 8:00 am and 4:00 p.m. on Saturdays, except during holidays and periods when it is impossible, impracticable or commercially unreasonably to do so. As to this Section 5.6(k), the Company reserves the right to enforce this provision only if it receives evidence that your customers in the Operating Territory are being serviced poorly or if your operating revenues are below the minimum gross revenue average of other franchisees similarly situated; and
- (l) to dispose of all the System's waste water properly and in accordance with local laws and regulations. Under no circumstances can the System's waste water be disposed of in a public place.

5.7 Prices Determined by You

The Company may from time to time advise or offer guidance to you concerning suggested prices and charges for the products and services. You are not obligated to accept any such advice or guidance, and you have the right to determine the prices you charge without interference from us, except with respect to National Accounts as provided in Section 5.12.

5.8 Management, Conflicting and Competing Interests

The Franchised Business must be under the direct supervision of one or more managers fully trained by the Company. You agree that you will faithfully and diligently perform your obligations hereunder, in that a fully trained management employee will continuously exert his or her full time attention, energy, and commercially reasonable efforts to promote and enhance the Franchised Business, and that you will not engage in any business or other activity that will conflict with your obligations under this Agreement. You acknowledge that the operation of a ZEROREZ franchise is a full time occupation. Therefore, you agree that neither you nor any principal owner will have any interest as an owner (except as publicly traded securities), lender, director, officer, employee, consultant, representative, agent, or any other such capacity in any other business that competes with the Franchised Business (except another ZEROREZ franchise) during the term of this Agreement without the express written consent of the Company, not to unreasonably be withheld.

5.9 Vehicles

All vehicles, including the Mobile Units, used with the Franchised Business must meet the Company's specifications including, without limitation, make, model, size, color, decals and appearance.

5.10 Computer Systems

We may require you to purchase, lease or upgrade, at your expense, such computer hardware and software, dedicated telephone and power lines, Internet Service Provider, modems, printers, and other computer-related accessories or peripheral equipment as reasonably required from time to time in the Manuals for various required or recommended functions, such as including recording and reporting Gross Sales, intranet communications system, online and in-business training, product and supply orders via the Internet from us, any of our affiliates or vendors, consumer scheduling of inspections or service appointments via the Internet, or online or telephone line connections to equipment/machinery. You must use computers, software, Internet connections and printers that meet our specifications and that integrate with our corporate server, in order to facilitate companywide customer relationship management (“CRM”) scheduling and accounting.

5.11 Software

You will obtain a proprietary license from us for a \$750 one-time license fee to use the latest available version of ZrWare (the “Software”) and will pay us a monthly fee, based upon the number of Mobile Units used in your franchise.

5.12 National Accounts

We may, at our option, enter into agreements to provide or accept services for third party companies on a national or regional basis (“National Accounts”). National Accounts may be floor-covering manufacturers, retailers, insurance companies or other businesses that offer a market for our services. You should be aware that National Accounts may lead to high volume and, in some situations, discount pricing. In order to fully develop the ZEROREZ brand on a national basis, you will be required to service National Accounts at the pricing established by

ZEROREZ. In negotiating pricing schedules on National Accounts, ZEROREZ will negotiate in good faith on behalf of all of the franchisees. When a National Account or the customer of a National Account outlet requests ZEROREZ services in the Operating Territory or within ten (10) miles of the Operating Territory, whether through us or from you directly, you must provide the services requested for the applicable price, provided that such services must be commercially reasonable. Failure to service National Accounts when requested will be considered a breach of this Agreement, and may lead to termination, as described herein. You must offer expanded service hours, including 24-hour on-call capability, if required to service the national account on a commercially reasonable basis. If a special price is not in effect for a specific National Account, you may charge your standard rates for service to such National Account.

5.13 Subscription Programs

You are required to subscribe to the following services in conjunction with your ZEROREZ franchise: Clean360 (currently \$47.00 per month), a customer service satisfaction program; QuickBooks Online (currently \$39.85 per month), an accounting software program; ZrWare, our software management program (cost varies based on the number of Mobile Units you use in your operations, currently \$90 per Mobile Unit per month for 1-10 Mobile Units; \$85 per Mobile Unit per Month for 11-25 Mobile Units; \$80 per Mobile Unit per month for 26-50 Mobile Units; \$75 per Mobile Unit per month for 50-59 Mobile Units; \$60 per Mobile Unit per month for 60-75 Mobile Units; and \$50 per Mobile Unit per month for over 75 Mobile Units); FleetMetrics, a vehicle tracking and management system (currently \$40-42 per Mobile Unit per month); our designated website management program (currently \$150.00 per month); and other technical, financial, management and leadership training as we may reasonably require from time to time. These fees may be changed and increased by the Company in its reasonable discretion upon notice to you through updates to the Manuals or otherwise.

6. MARKS

6.1 Ownership

The Company has filed trademark applications with the United States Patent and Trademark Office for the Marks, including the name "ZEROREZ" and for our logo. The United States Patent and Trademark Office has issued the Marks. You acknowledge that the Company is the owner of the Marks and all associated goodwill. You agree not to contest the validity of the Marks during or after the Term of this Agreement or any renewal. Other than your right to use the Marks pursuant to this Agreement, you acquire no right, title, or interest of any kind or nature in or to the Marks or the associated goodwill. Unless otherwise permitted in writing by the Company, you shall use the Marks only in connection with the System, and you agree that your use of the Marks under this Agreement inures to the benefit of the Company. You are required to use the Marks pursuant to and in compliance with this Agreement, the System, and other standards we prescribe. You agree to execute any documents deemed necessary by the Company or its counsel to obtain protection for the Marks or to maintain their continued validity and enforceability. Your unauthorized use of the Marks will constitute a breach of this Agreement and an infringement of the Company's rights in and to the Marks. All provisions of this Agreement applicable to the Marks apply to any additional trademark, service mark, or commercial symbol we authorize or require you to use.

6.2 Approval

You will display the Marks only in the form and manner specifically approved by us and, upon request by the Company, will affix any legends, markings, and notices of trademark registration or any other notice of the Company's ownership. The Company shall have the right to approve all material prepared by you, included but not limited to stationery, advertisements, promotional items, displays, and other printed materials, upon which any of the Marks appear.

6.3 Protection and Defense

The Company agrees to protect and defend the Marks. You agree to cooperate fully with the Company in the defense and protection of the Marks and shall immediately advise the Company in writing of any potentially infringing uses by others and any suits brought or claims made against you involving the Marks. So long as you have provided the notice required herein, the Company agrees to indemnify defend and hold you harmless (including reasonable expenses and attorneys' fees expended in defense of the marks), against third party claims or demands resulting from your use of the Marks unless the Company determines that you did not use the Marks in accordance with this Agreement. The Company will reimburse you for all out of pocket expenses you incur if your use of the Marks conforms to this Agreement, including reasonable legal expenses and attorneys' fees. Decisions regarding the protection and defense of the Marks, and the settlement of any litigation involving the Marks, shall be solely in the discretion of the Company and you shall take no action related thereto without the express written consent of the Company. Further, without the Company's consent, you shall not initiate any suit or proceeding against alleged imitators or infringers or any other suit or proceeding to enforce or protect the System.

In the event the Company fails to protect you from and against any third party infringement or claim with regard to the Marks, you may proceed to protect the Marks against any such infringement or unauthorized use and seek reasonable reimbursement from the Company, so long as any such enforcement action is prosecuted by competent counsel that specializes in the enforcement and/or infringement of patents, trademarks, service marks, etc.

6.4 Further Restrictions on the Marks

- (a) You understand that the license to the Marks is non-exclusive and the Company retains the right to grant licenses for the Marks to other companies or individuals;
- (b) Except with the express written consent of the Company, you shall not use any trademarks, service marks or other identifying characteristics in connection with the Franchised Business other than the Marks;
- (c) You shall not manufacture, market, or sell products nor perform services under the Marks unless specifically approved by the Company;
- (d) Except for the fictitious name registration referred to in Section 5.6(a), you shall not use or register, in whole or in part, the Marks or the Company's name, or anything similar, as part of your corporate name or as the name of any entity directly or indirectly associated with your activities; and
- (e) You shall not use any Mark with any prefix, suffix, or other modifying words, designs or symbols unless the Company approves in writing.

6.5 Goodwill

You acknowledge the substantial goodwill value of the Marks and your significant responsibilities to the System's proper and efficient operation. You shall not use the Marks in any manner to injure or disparage the Company or its reputation and agree not to take any action, which would harm or jeopardize the Marks, or the Company's ownership thereof, in any way.

6.6 Changes to Marks

The Company has the right at any time, upon notice to you, to make additions to, deletions from, and changes in the Marks, and you will adopt and use any and all such additions, deletions, and changes pursuant to the Company's instructions. The Company will not reimburse you for any expenses you incur in complying with these instructions including any loss of revenue attributable to any modified or discontinued Mark.

6.7 Inspection

To ensure that you are properly employing the Marks in connection with the operation of the Franchised Business, you agree that the Company or its agents shall have the right to inspect your operations and business premises. To the extent that the Company takes advantage of its rights under this Section 6.7, you shall fully cooperate with the Company and render such assistance as may reasonably be required.

7. MARKETING AND ADVERTISING

7.1 Value

You recognize the value of advertising and the importance of the standardization of advertising and marketing programs to the furtherance of the goodwill and public image of the System, branding of ZEROEZ and its products and services and all ZEROEZ franchisees.

7.2 Approval of Advertising

In order to ensure the necessary quality, uniformity, and continuity of advertising and promotional activity for all ZEROEZ franchisees operating under the System, you agree not to carry out any advertising or promotional activities, or to publish or distribute any advertising and promotional materials, until you have sent a copy of such proposed advertising or promotional material to the Company and have obtained written approval by the Company to use such material. If you have not received approval of any submitted materials after 14 days of receipt by us, such materials are not approved. You agree that all advertising and promotional activities that you undertake will be completely factual and will comply with the Company's advertising guidelines. You will be solely responsible for compliance with all laws applicable to advertising in your jurisdiction.

7.3 National or Regional Brand Fund

You agree to contribute to the national brand fund up to three percent (3%) of your monthly Gross Sales (the "**Fund**"). The Company will notify you of the current percentage you must pay to the Fund and of any changes to such percentage. Your contribution to the Fund will not be increased by more than one percent (1%) per annum. The fees payable to the Fund shall be paid on or before the 15th day of the month immediately following the month to which such fees relate. You further agree that:

- (a) The Fund will be maintained and administered by the Company or its designee and the Company will oversee all advertising and promotional programs, marketing, and public relations with the sole discretion to approve or disapprove the concepts, materials, and media used in such programs and the placement and allocation of these programs. You acknowledge and agree that the Fund may be used, in the Company's reasonable discretion, to pay costs of producing, preparing, distributing, and using marketing, advertising, and other materials and programs; administering national, regional, and other marketing programs; purchasing media; employing advertising, public relations, and other agencies and firms; and supporting market research. In connection therewith, the Fund shall have the right to hire consultants, some of whom may be affiliated with the Company, such as an in-house advertising agency, in order to assist with production, marketing programs, media buys or materials for the System. The Fund will be used to cover the costs of advertising and promotional activities including, without limitation, direct mail campaigns advertising via radio, television, magazines, billboards and newspapers, marketing surveys and research, public relations, employing advertising and/or media buying agencies, production of advertising material, media planning and placement, marketing and administrative personnel, and any other costs associated with the

development, evaluation, testing, distribution or placement of advertising time, space, or materials in national, regional, or other advertising media;

- (b) In administering the Fund and determining how and where the monies in the Fund will be spent, the Company will take into account the relative contributions of each of the participating franchisees; however, there can be no assurances that expenditures will be made to your direct benefit or within the Operating Territory that are equivalent or proportional to your contribution to the Fund.
- (c) The money contributed to the Fund will be maintained in a separate account from the Company's other monies and shall not be used to cover any of the Company's expenses, except for reasonable administrative costs and overhead associated with managing and administering the Fund.
- (d) The Company, in its sole discretion, may spend in any fiscal year an amount greater or less than any aggregate contribution to the Fund in that year and the Fund may borrow from the Company or its affiliates or other lenders to cover deficits in the Fund or cause the Fund to invest any surplus for future use by the Fund. The balance of the Fund, including contributions to and earnings of the Fund in a given year, can be carried forward and used for Fund activities the following year;
- (e) The Company will not have any direct or indirect liability or obligation to you, the Fund, or otherwise with respect to how it is maintained or managed or its direction or administration;
- (f) You acknowledge and agree that your and the Company's rights and obligations with respect to the Fund and all related matters are governed solely by this Agreement and that this Agreement and the Fund are not in the nature of a "trust," "fiduciary relationship," or similar special arrangement, and is only an ordinary commercial relationship between independent businesses for their independent economic benefit;

The Fund's administration will be paid by the Fund. In no event will the Fund's annual administrative expenses exceed twenty percent (20%) of its operating expenses. The Fund will be audited annually and you may request an accounting of the Fund ninety (90) days after the end of each calendar year in writing for the Fund's use in the previous year. You are limited to one such request for an audit annually. The Fund will not be used for solicitation of new franchisees. Although the Fund is intended to be of perpetual duration, the Company retains the right to terminate the Fund. The Fund will not be terminated, however, until all monies in the Fund have been expended for advertising or promotional purposes or returned to contributors on the basis of their respective contributions.

7.4 Required Local Advertising Expenditures

While this Agreement is in effect, you agree to make monthly expenditures for local advertising and promotional activities of the Franchised Business of not less than five percent (5%) of your Gross Sales for the preceding month. At such time as the Company establishes a national or regional brand program, you will be required to contribute up to three percent (3%) of your Gross Sales as provided for in Section 7.3. Upon request, you will deliver to the Company a report providing proof that you have fulfilled your local advertising requirement. Samples of all advertising, promotional and marketing materials that the Company has not prepared or previously approved must be submitted to the Company for its approval at least thirty (30) days prior to the closing date for the submittal of materials as set by any media company for timely publication, in which case the material shall be deemed to have been approved unless the Company notifies you in writing to the contrary within fourteen (14) business days following its receipt of the material. Advertising and promotion by you in any medium shall be conducted in a dignified manner shall conform to the standards and requirements of the Company.

7.5 Local Advertising/Branding Cooperatives

In certain cases, your Operating Territory may be located in a market area where other franchisees of the Company or Company-owned operations will also be located. In these cases, the Company, or with the Company's approval, a Regional Developer that covers your Operating Territory, may determine that all ZEROREZ franchises sharing the same local market area should participate in market-wide cooperative advertising and/or branding programs. If such a determination is made with respect to your market area, your participation will be mandatory. The Company or the approved Regional Developer shall have the authority to set the terms of any such cooperative programs, and to make changes to those programs from time to time as approved by the Company, and you agree to participate in any such cooperative programs, although the Company agrees to permit the activities of the cooperative to be controlled locally in accordance with guidelines set forth in the Manuals. We have the right to require you or any local cooperative to employ the services of an advertising agency or media buying company that we designate or approve for the administration of local expenditures. Any ZEROREZ businesses owned by us or any of our affiliates located in your local marketing area(s) will participate in the cooperative(s) with the same rights as other members and will contribute to the cooperative(s) on the same basis, as you are required to contribute. Amounts you pay to the local cooperative program shall be credited toward the local advertising expenditures required under Section 7.4 herein.

7.6 Franchisee's Name and Photograph

You hereby grant to the Company the right, without compensation, to use your name, address, photographs of your principal owners, and information concerning you or your Franchised Business in any publication, circular, or advertisement related to ZEROREZ franchises or the sale of ZEROREZ franchises.

7.7 Telephone Directories

If you choose to advertise in the Yellow Pages or other telephone directory, we must approve such advertisements in advance.

7.8 Internet Advertising

The Company may, in its sole discretion, maintain a website and may list information about you and your Franchised Business within any portion of such a website, including a page devoted to your Franchised Business based upon a template developed by the Company, if applicable. The Company's website will not contain any financial data applicable to your Franchised Business without your prior written consent. The Company shall have the sole discretion to determine the content and format of its web site. You may not develop an independent web site related to your Franchised Business, and you may not use any of the Marks in any domain name or web site without the prior written consent of the Company.

7.9 Advertising Agency

In order to maintain consistency and quality, and in order to keep franchisees focused on revenue generation, you agree that you will use such company or companies as may be designated by us from time to time, for your franchised business's local and/or national or regional advertising, provided that such company or companies are, in your reasonable discretion, adding commercial value. Upon termination or expiration of this Agreement, all rights to local or regional radio or television advertising shall become the property of the Company, and you will remain responsible for payment of all fees for such advertising through the date of termination or expiration of this Agreement.

8. CONFIDENTIAL INFORMATION; COVENANTS

8.1 Confidential Information

You will receive confidential and proprietary information, which the Company has developed over time and at great expense. Any information disclosed by the Company to you that is designated as confidential, or which by its nature might reasonably be expected, if disclosed, to provide the Company's competitors with a competitive advantage or injure the Company's business, shall be considered "**Confidential Information**" hereunder, so long as it complies with the specific rules, regulations and laws then in effect and valid in the Operating Territory. Without limiting the foregoing, the following shall be presumed to be Confidential Information: all of the contents of the Manuals and updates, cleaning products and/or formulas, lists of suppliers, lists of franchisees, lists of franchisee prospects, lists of customers, price lists and advertising strategies.

You acknowledge that the Confidential Information is not generally known in the trade and is beyond your present skills and experience, and that for you to develop such information on your own would be expensive, time consuming and difficult. You further acknowledge that the Confidential Information provides a competitive advantage and will be valuable to you in the development of your Franchised Business, and that gaining access to this information is a primary reason why you entering into the Agreement. Accordingly, in consideration of the Company's disclosure of the Confidential Information, you agree as follows:

- (a) Except as required by law, neither you or your officers, directors, shareholders, or any person or entity controlling, controlled by, or under common control with you, will at any time appropriate or use the Confidential Information, or any portion thereof, in any business other than the Franchised Business; disclose or reveal any portion of the Confidential Information to any person, other than to your employees who have signed the non-disclosure agreement described in Section 8.1(b) herein; or communicate, divulge, or use any Confidential Information for the benefit of any other person or entity except as authorized by the Company in connection with the franchise granted hereunder.
- (b) You will take all appropriate precautions to prevent unauthorized copying or disclosure of any Confidential Information by your employees and agents, which precautions shall include, restricting access to Confidential Information to a "need to know" basis. You will require each employee or agent with access to Confidential Information to execute a non-compete and non-disclosure agreement, in a form acceptable to and approved by the Company.

8.2 Covenants

In consideration of the valuable training that you will receive from the Company, the disclosure to you of the Company's trade secrets and Confidential Information, and the use and license of the System, you agree that neither you nor any or your owners will individually or jointly with others, either directly or indirectly, for itself, himself, or herself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or other entity will:

During the term of this Agreement:

- (a) divert or attempt to divert any present or prospective business or customer of any Franchised Business to any competitor;
- (b) own, maintain, operate, advise, consult with, engage in, or have any interest in any business engaged, wholly or partly, in the sale of products and services associated with floor surfaces and fabric care, or which offers products or services competitive with those offered under the System, to any customer;

- (c) own, maintain, operate, advise, consult with, engage in, or have any interest in any business engaged, wholly or partly, in the wholesale sale of products and services associated with floor surfaces and fabric care, or which offers products or services at wholesale otherwise competitive to those offered under the System, to any customer or potential customer regardless of location.

Subsequent to the expiration or termination of this Agreement, a Transfer permitted hereunder (as hereinafter defined), or a final decision of an arbitrator or a court of competent jurisdiction, and continuing for eighteen (18) months thereafter:

- (d) own, maintain, operate, advise, consult with, engage in, or have any interest in any business engaged, wholly or partly, in the sale of products and services associated with floor and fabric care, or which offers products or services otherwise similar to those offered under the System, to any customer within the same state as, or a state that borders, the state in which your exclusive Operating Territory is located;
- (e) provide products or services which are the same as or similar to the products and services offered under the System to any customer to whom you provided such products or services at any time during the one year period prior to the termination, expiration, or permitted Transfer (as hereinafter defined) of this Agreement.

These restrictions will not apply to your ownership of less than a five percent (5%) beneficial interest in the outstanding equity securities of any publicly held corporation, and you agree that the Company shall have the right to reduce the scope of any covenant contained in this Section 8.2, simply by providing written notice to you. Upon your receipt of such written notice, you agree to comply with such modified covenants. The existence of any claims you may have against the Company, whether arising under this Agreement or otherwise, will not constitute a defense to enforcement by the Company of the covenants contained in this Section 8.2.

In the event that any provision of this covenant not to compete shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the duration or scope thereof; such invalidity or unenforceability shall attach only to the specific provision determined to be unenforceable and the covenant shall remain in full force and effect for the greatest time period and for the broadest scope permitted by applicable law. Franchisee and the Company intend that this covenant not to compete shall be deemed to be a series of separate covenants, one for each and every county of each and every state of the United States of America and one for each and every political subdivision of each and every other country where the covenant not to compete is effective.

8.3 Customer Lists

All customers within the Operating Territory, and all lists of such customers, shall be your responsibility; provided that in the event this Agreement expires or is terminated by the Company, ownership of the customers within your exclusive Operating Territory and all customer lists containing information regarding such customers shall automatically become the sole property of the Company. You covenant not to use the customer lists for any purpose other than in connection with the Franchised Business. You will, on demand, promptly deliver to the Company a complete list of your customers including all information concerning such customers as requested by the Company. You will not, for a period of at least eighteen (18) months from the termination or expiration of this Agreement, contact any customer for whom you have provided services as a franchisee of the Company or any individual or entity within your Operating Territory's market area, for the purpose of offering such customer services that are similar to or competitive with the services you provided as a franchisee of the Company.

9. TAXES AND INDEBTEDNESS

9.1 Payment

You will promptly pay when due any and all federal, state, and local taxes including, without limitation, employment and sales taxes, levied or assessed with respect to any services or products furnished, used, or licensed pursuant to the Agreement, and all accounts or other indebtedness of every kind incurred by you in the operation of the Franchised Business. This does not preclude you from undertaking bona fide disputes regarding your liability for taxes assessed or other indebtedness, provided you contest the liabilities through the proper procedures of the taxing authority or applicable law.

9.2 Responsibility for Debts

You expressly covenant and agree to accept full and sole responsibility for all debts and obligations incurred in the operation of the Franchised Business.

9.3 Notification of Suits

You agree to notify us immediately in writing of any suit, proceeding, or action and of the issuance of any writ, award, decree, injunction, or order of any court, agency, or other government instrumentality, that may adversely affect the operation of the Franchised Business.

9.4 Reimbursement of Taxes and Costs

Should any franchise or other tax based upon the gross sales, gross revenues, business activities, or operation of the Franchised Business that should properly be imposed upon, or paid by, the Franchised Business, be imposed on the Company by any taxing authority, you will reimburse the Company or gross up the amount paid to the company in an amount sufficient to cover such taxes and related costs and expenses imposed upon or paid by the Company and ensure that the Company receives the payment it otherwise would have received if such taxes or fees had not been applicable. You will make such reimbursement within ten (10) days after receipt of written notice from the Company that the Company is entitled to reimbursement for payment of such taxes and other amounts as set forth herein.

10. RIGHT TO ACCESS, INSPECTION AND AUDIT

10.1 Access

The Company and its authorized representatives shall have the right at any time during normal business hours, with reasonable notice, to enter your business premises or the premises where you or your employees are providing customer services in order to inspect records, monitor procedures, and evaluate performance to determine if you and your employees are in compliance with this Agreement. This review may include, in the sole discretion of the Company, an annual business review of your entire Franchised Business in order to ensure continued compliance with this Agreement and the Franchise Disclosure Document. You agree to cooperate fully with the Company in any review under this Section.

10.2 Inspection and Audit

You will retain at your business premises, for a period of at least three (3) years, all of the records pertaining to the Franchised Business and your Gross Sales. All such records shall be available for inspection and copying at all reasonable times by the Company. The Company's right to

inspect, audit, and copy your records shall survive for a period of three (3) years following any expiration or termination of this Agreement.

10.3 Deficiencies

In the event, any inspection or audit discloses a deficiency in the payment of any royalty, or any other amount required to be paid under this Agreement, you shall immediately pay the deficiency to the Company. In addition, if the deficiency is equal to or exceeds two percent (2%) of the correct amount required to be paid under this Agreement during any twelve (12) month period, you will immediately pay the Company the entire cost of such inspection and audit, including but not limited to, travel, lodging, meals, salaries, and other expenses of the inspecting or auditing personnel.

11. INDEMNIFICATION; INSURANCE

11.1 Indemnity

The Company shall not be liable (vicariously or otherwise) for any of your actions, nor shall the Company be liable (vicariously or otherwise) by reason of any act or omission on your part in the operation of the Franchised Business or for any claim or judgment against you. You agree to indemnify and hold the Company and its officers, directors, and employees harmless from and against any expense, liability, or damage (including attorneys' fees) the Company or such individuals may incur as a result of claims, demands, costs or judgments, of any kind or nature, by anyone, arising out of, or otherwise connected with, the ownership, maintenance or operation of the Franchised Business by you. The Company shall have the right, within reason, to approve the counsel used in defending any action subject to indemnification hereunder. The Franchisee shall not be liable (vicariously or otherwise) for any of Company's actions, nor shall the Franchisee be liable (vicariously or otherwise) by reason of any act or omission on the Company's part in the operation of the franchise system or for any claim or judgment against the Company. Company agrees to indemnify and hold the Franchisees and their respective officers, directors, and employees harmless from and against any expense, liability, or damage (including attorney's fees) the Franchisees or such individuals may incur as a result of claims, demands, costs or judgments, of any kind or nature, by anyone, arising out of, or otherwise connected with, the ownership, maintenance or operation of the Company.

11.2 Insurance

During the term of this Agreement, you agree to maintain, at your expense, insurance as outlined in the Manuals. The current insurance requirements are as follows:

- (a) insurance of the generally accepted "all risk" form on all personal property and assets of every description and kind used in the Franchised Business in an amount of the full insurable value thereof;
- (b) commercial general liability insurance coverage for the operation of the Franchised Business, including but not limited to, coverage against all types of public liability, including products liability, premises liability, completed operations liability, against claims for personal injury, bodily injury, death, or property damage suffered by others including the Company, its agents, or its employees, or as a result of the use of products sold by, or services rendered by, you, with a minimum coverage of \$1,000,000 per accident or occurrence affecting one or more persons or property damage and \$1,000,000 aggregate, or as it may reasonably be adjusted from time to time;
- (c) motor vehicle liability insurance for any claims arising out of the Franchised Business, or occurring as a result of the maintenance or operation by you, your employees, or persons doing business on your behalf, of any automobiles, Mobile Units, or other vehicles or other

facilities with a minimum coverage of \$1,000,000 for each accident or occurrence affecting one or more persons, or property, or as it may reasonably be adjusted from time to time;

- (d) workers' compensation, unemployment compensation, social security, and other mandatory insurance coverage shall be maintained in such amounts as may now or later be required by any applicable law.

All insurance policies shall be issued by an insurance carrier rated "A" or better by Alfred M. Best and Company, Inc. All policies described in Sections 11.2(a)-(d) above shall insure you and name the Company as an additional insured, and shall stipulate that the Company shall receive at least thirty (30) days' written notice of cancellations or modification. Your obligation to obtain and maintain the insurance policies described herein shall not be limited in any way by reason of any insurance that may be obtained by the Company, nor shall your performance of this obligation relieve you of liability under the indemnity provision set forth in Section 11.1. You shall deliver to the Company certificates of insurance or copies of insurance policies evidencing compliance with the requirements of this Section 11.2, together with proof of payment for such policies, prior to commencing operation of the Franchised Business, and thereafter prior to the expiration date of any such insurance coverage.

The Company may, from time to time upon at least sixty (60) days prior written notice to you, increase or modify mandatory insurance coverage for the Franchised Business as the Company may deem necessary for the protection of the Company, the System, and you. You agree to comply with such increased or modified coverage requirements at your sole cost and expense, provided that such increased or modified coverage is reasonable;

You acknowledge and agree that should you fail to procure and maintain the insurance required by this Section 11, the Company has the right, but not the obligation, to procure the insurance and to require you to reimburse us for the cost of such insurance and for any expenses incurred in procuring the insurance.

11.3 Third Parties

You are responsible for all losses or damages and contractual liabilities to third persons arising out of or in connection with the possession, ownership, or operation of the Franchised Business, and for all claims or demands for damages to property or injury, illness, or death of persons directly or indirectly resulting therefrom.

11.4 Employee Bond

You shall obtain and maintain in effect a blanket fidelity bond in the amount of two hundred and fifty thousand dollars (\$250,000) to cover your employees from and against any intentional act(s) (including any intentional tortuous acts) by your employees in the course of their employment under the Franchised Business; and shall send the Company a copy of such bond. This bond must provide that the Company shall be given thirty (30) days' prior written notice of termination, cancellation, or expiration.

12. TRANSFER OF FRANCHISE

12.1 Transfer of Franchise

This Agreement is specific to you and you agree neither to sell, assign, transfer, nor to encumber your rights under this Agreement or to sell of all or substantially all of the assets of the Franchised Business ("**Transfer**") without the prior written consent of the Company, which consent will not be unreasonably withheld. If you are a corporation, limited liability company, or similar entity, the terms of this Section 12.1 shall be deemed violated upon any sale, resale, pledge, assignment, transfer,

or encumbrance of a controlling interest in the entity. If you are a partnership, then the terms of this Section 12.1 shall be deemed violated upon any removal or addition of any general partner. You shall disclose to the Company on Schedule B of this Agreement the names of all your partners, owners, and shareholders, and shall give the Company prompt notice of any changes or additions to the same. Any assignment or transfer in violation of this Section 12 shall be null and void and shall constitute a material breach of this Agreement, which will provide the Company with the right to terminate this Agreement in accordance with Section 13. The current fee payable for any approved Transfer is \$7,500, however this fee may be changed from time to time as outlined in the Manuals.

12.2 The Company's Right of First Refusal

If any person holding a direct interest in this Agreement, in you, or in all or substantially all of the assets of the Franchised Business, desires to accept any bona fide offer from a third party to Transfer such interest, you will notify the Company at least thirty (30) days before the Transfer is proposed to take place and provide any information or documentation relating to the offer that the Company requires. The Company will have the right and option, exercisable within thirty (30) days after receipt of such written notification, to send written notice to the seller that the Company intends to purchase the seller's interest on the same terms and conditions offered by the third party. If the Company elects not to purchase the seller's interest, such third party will have thirty (30) days from the earlier date of receipt of a notice from the Company declining to exercise its right of first refusal; or thirty (30) days after the Company's receipt of the transferor's written notification of the proposed transfer, to close on the transfer of the interest. Failure to effect a transfer with the third party within the ninety (90) day period, or any material change of the terms of the offer prior to closing, will constitute a new offer subject to the same rights of first refusal by the Company as in the case of the third party's initial offer. The Company's failure to exercise the option provided by this Section 12.2 does not constitute a waiver of any other provision of this Agreement. If the consideration, terms, or conditions offered by a third party are such that the Company cannot furnish the same consideration, terms, or conditions, then the Company may purchase the interest proposed for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash, an independent appraiser will be designated by the Company, at the Company's expense, and the appraiser's determination will be final and binding.

12.3 Conditions for Transfer

You acknowledge and agree that the restrictions on Transfer contained in this Agreement are reasonable and are necessary to protect the Franchised Business, the System, and the Marks, as well as the Company's reputation and image, and are essential for the protection of the Company and other ZEROREZ franchisees. The Company agrees not to unreasonably withhold its consent to Transfer of the Franchised Business by you, provided however, that consent to such Transfer otherwise permitted or permissible may be refused in any case unless:

- (a) all of your obligations under this Agreement and any other agreement affecting the Franchised Business are assumed by the transferee. You will remain liable for all obligations to us in connection with the Franchised Business which arose prior to the effective date of the Transfer;
- (b) all your known or liquidated debts to the Company or any affiliates of the Company are paid or assumed by the transferee with our consent;
- (c) you are not in default in any material respect under this Agreement or any other agreement with the Company or any affiliates of the Company;

- (d) the transferee and its partners, officers, and shareholders, if applicable, satisfactorily complete prior to the date of transfer the training required of new franchisees on the Company's then current terms;
- (e) you, if requested by the Company, satisfy the Company that the transferee, and its partners, officers, and shareholders if applicable, meet all of the requirements of the Company for new franchisees, including but not limited to, good reputation and character, business acumen, operational ability, management skills, credit rating, financial strength, and other business considerations;
- (f) you, all of your individual owners, and those of the transferee, if required by the Company, execute a general release under seal of any and all claims against the Company, in which event the Company will execute a similar release in your favor;
- (g) you or your transferee pays to the Company the then-current transfer fee for effecting the Transfer and in providing training and other initial assistance to the transferee, which fee is currently \$7,500; and
- (h) the Company receives a fully executed copy of all Transfer documents;
- (i) the Company deems that the transferee is credit worthy and has the financial wherewithal to continue to operate the Franchised Business; and
- (j) the transferee must execute the then-current form of franchise agreement which may be materially different from the franchise agreement you signed, including but not limited to higher royalty fees and higher Fund contributions.

12.4 Transfer to a Corporation

Notwithstanding Sections 12.1-12.3 above, on thirty (30) days' prior notice to us, you (if you are an individual or partnership) may transfer this Agreement, in conjunction with a transfer of all of the assets of your Business, by an agreement in form and substance satisfactory to us, to a corporation, trust, or limited liability company or other estate planning vehicle, of which you own and control all of the equity and voting power of all issued and outstanding capital stock. No such assignment will relieve you or your owners of your obligations hereunder, and you and your owners will remain jointly and severally liable for all obligations hereunder.

12.5 Special Transfers

Sections 12.1-12.3 shall not apply to any Transfer of the Franchise among any of your then current owners disclosed in Schedule B of this Agreement. Section 12.3(g) shall not apply to a transfer of the Franchised Business to a spouse or adult child of the franchisee (if an individual) or to a spouse or adult child of a then current owner listed in Schedule B (if a corporation, limited liability company or partnership).

12.6 Death or Disability of Franchisee

Upon your death or permanent disability, or the death or permanent disability of your principal owner, the executor, administrator or other personal representative of such person must transfer his interest in this Agreement or his interest in the Franchised Business to a third party approved by us in accordance with all of the applicable provisions of Section 12 herein within a reasonable period of time, not to exceed one (1) year from the date of death or permanent disability, unless agreed to in writing by Company.

12.7 Assignment by the Company

All of the Company's rights and obligations under this Agreement are freely assignable by the Company with or without your consent.

12.8 Non-waiver

The consent by the Company to a Transfer covered by this Section shall not constitute a waiver of any claims the Company may have against the transferring party, nor will it be deemed a waiver of the Company's right to demand exact compliance with any of the terms of this Agreement by transferor and transferee.

13. TERMINATION OF AGREEMENT

13.1 Expiration of Term

Unless renewed as provided in Section 1.2 herein, this Agreement shall expire without notice ten (10) years from the Effective Date, subject to earlier termination as described in this Section 13.

13.2 By You

If you are in substantial compliance with the Agreement and the Company materially fails to comply with this Agreement and does not correct such failure within thirty (30) days after written notice is received by the Company or, if such failure cannot be cured within the thirty (30) day period, or the Company does not undertake diligently to attempt to cure the failure within the cure period and continue to do so thereafter until the failure is cured, then you may terminate this Agreement effective ten (10) days after delivery to the Company of a written notice of termination.

13.3 By the Company

In the event that you fail to commence the operation of the Franchised Business as required herein or the Company reasonably determines that you are unable to complete satisfactorily the initial training program as required in Section 4 above, then the Company shall have the right to terminate this Agreement, effective immediately upon delivery to you of written notice of termination.

13.4 By the Company; Automatic Termination

If any of the following events occur, you will be deemed in default under this Agreement, and the rights granted to you hereunder will automatically terminate without notice:

- (a) if you file a petition in bankruptcy, or if a petition is filed against you and not contested by you within three (3) days, or if you are a corporation, partnership, or limited liability company, you are dissolved;
- (b) if you make a general assignment for the benefit of creditors or become insolvent;
- (c) if you fail to contest, satisfy, lift, or vacate within ten (10) days any execution, seizure, foreclosure, levy, or distress against the assets of the Franchised Business;
- (d) if you fail to contest or have removed, within ten (10) days, the appointment of a receiver or other custodian (either temporary or permanent) of the Franchised Business or any part of its assets;

- (e) if a final judgment in excess of twenty-five thousand dollars (\$25,000) remains unsatisfied or of record for thirty (30) days or longer;
- (f) if you take the benefit of any act or proceeding for winding up your affairs or compromising your debts;
- (g) if you make a transfer (as defined in Section 12) of the Franchised Business or of the rights granted under this Agreement without first complying with the relevant provisions of this Agreement;
- (h) if you misuse or make an unauthorized use of the System or Marks or any other name, mark, system, insignia, symbol, or right provided by the Company to you, after being notified in writing by the Company to cease and desist from such unauthorized use, or if you make an unauthorized copy or disclosure of the Confidential Information or make an unauthorized copy of or otherwise make any unauthorized disclosure of the Manuals, after being notified in writing by the Company to cease and desist from such unauthorized copy or disclosure; or
- (i) if you repeatedly, and after written notice to cease, perform services hereunder in the Operating Territory of another ZEROREZ franchisee.

13.5 By the Company; Notice and Opportunity to Cure

If any of the following events occur, the Company may, at its option and upon the period of time outlined below, or if no period of time is specified, upon thirty (30) days written notice to you and you fail to cure the event that gives rise to a default hereunder, terminate this Agreement effective immediately upon your receipt of a written notice of termination at the end of any cure period:

- (a) if you abandon or surrender or transfer control of the operation of the Franchised Business or fail to conduct actively the Franchised Business as required herein and such condition continues for ten (10) business days after notice of such default is given (with the exception of fire, flood, other Acts of God, or other extraordinary circumstances which prevent you from actively conducting the Franchised Business);
- (b) if you operate the Franchised Business in a manner that presents a health or safety hazard to your clients, customers, employees, or the public and such manner of operation continues uncorrected for two (2) days or longer if it cannot be cured in two (2) days and cure is commenced and diligently pursued to completion after notice to correct same;
- (c) if you sell or offer for sale any unauthorized product or service for more than three (3) days after notice to cease; or longer if it cannot be cured in three (3) days and cure is commenced and diligently pursued to completion;
- (d) if you or any principal owner or executive officer is convicted of a felony, a crime involving fraud or moral turpitude, or any other crime or offense that the Company believes is reasonably likely to have an adverse effect on the System, the Marks, or the Company's interests;
- (e) if you refuse to submit any required report, financial statement, schedule, or other information or supporting records reasonably required herein more than thirty (30) days after the Company makes written demand for such report, financial statement, schedule, or other information or supporting records;
- (f) if you fail to achieve the Gross Sales necessary to achieve the minimum monthly royalty payment as set forth in Section 2.8, and/or in Schedule A, or fail to comply with the

covenants set forth in Section 8.2, if such failure continues more than sixty (60) days after written notice to cure from the Company;

- (g) if you knowingly submit on two (2) or more occasions at any time during the term of this Agreement a report, financial statement, tax return, schedule, or other information or supporting record that understates your Gross Sales for any period by more than four percent (4%), unless you demonstrate that such understatement resulted from an inadvertent error;
- (h) if you fail or refuse to pay any amount owed to the Company or any affiliate for any royalty or other financial obligation (including any portion of the Additional Territory Fee you financed), or if you fail or refuse to pay any amount due to any lender or any payment owed under any agreement executed in connection with your purchase of an ZEROREZ franchise (including, but not limited to, any Mobile Unit and equipment lease, or EOW generator), within ten (10) days after a demand for payment, or fail to honor on two (2) or more occasions in any twelve (12) month period throughout the term of this Agreement, checks presented to the Company or any affiliated entity for payment, or repeatedly and consistently pay any amount due hereunder after its due date;
- (i) if you violate any law, ordinance, rule or regulation of any governmental agency in connection with the operation of the Franchised Business and do not correct such violation promptly after notification thereof, unless there is a bona fide dispute as to the violation or status of such law, rule or regulation, and you promptly resort to a court of competent jurisdiction or other appropriate forum to contest such violation or status;
- (j) if you intentionally use equipment or supplies that are not in compliance with the Company's standards and specifications after being notified by the Company not to use such equipment or supplies;
- (k) if you unreasonably refuse to permit the Company to inspect the Franchised Business, its premises, or your books and records upon demand;
- (l) if you made any material misrepresentations to the Company upon which the Company relied in evaluating your application for an ZEROREZ franchise;
- (m) if you have failed to cure, as allowed under this Agreement, two (2) more notices of default under this Agreement during any twelve (12) consecutive month period;
- (n) if you fail to promptly respond to, and reasonably satisfy customer complaints. Specifically, failure to reasonably satisfy the complaints of seven (7) or more clients or customers for any single Mobile Unit operated by you within any twelve (12) consecutive month period constitutes failure to properly respond to and reasonably satisfy customer complaints;
- (o) if you fail to maintain the quality of the System or violate any program, initiative or directive from us relative to the Company or the Franchised Business; or
- (p) if you fail to comply with any other provision of this Agreement or any other specification, standard, or operating procedure prescribed by the Company. The Company agrees that any written notice of default shall describe the default with specificity.

14. YOUR RIGHTS AND OBLIGATIONS UPON TERMINATION OR EXPIRATION

14.1 General Obligations

Upon termination or expiration of this Agreement, all rights granted to you under this Agreement will terminate and you will undertake the following:

- (a) to pay immediately any monies owed to the Company and its affiliates. All periodic payments shall be deemed to accrue daily and shall be adjusted accordingly;
- (b) to immediately cease to operate the Franchised Business and to immediately cease to represent to the public or hold yourself out as a present or former franchisee of the Company;
- (c) to immediately cease using the Marks and any confusingly similar names, marks, systems, and insignia, and cancel all assumed name or equivalent registrations relating to your use of any of the Marks. You will notify any telephone company and all listing agencies of the termination or expiration of your right to use any telephone number or directory listing associated with the Marks, and you hereby acknowledge that these items (and trunk lines and any other services provided by telephone companies and used by you in the Franchised Business) revert automatically to the Company for its (or its new franchisee's) use within the Operating Territory;
- (d) to immediately cease to use the System or any of its methods, procedures, or techniques;
- (e) to immediately make changes in signs, decals, and colors as the Company shall reasonably request so as to distinguish your vehicles from those of any other ZEROREZ franchisee;
- (f) within five (5) days of the effective date of termination or expiration, to return to the Company all copies of all material previously received from the Company including, without limitation, the Company's Confidential Information, the Manuals, and a complete list of your present customers and clients, including their addresses and telephone numbers. You will keep all Franchised Business records for at least three (3) years after the effective date of termination or expiration and keep the Company advised of the location of such records;
- (g) comply with the restrictive covenant obligations set forth in Section 8.2; and
- (h) unless otherwise restricted by the Company, within five (5) days of the effective date of termination or expiration, return to the Company any data generated by using the Software; and
- (i) ensure that the Marks and all equipment related to the operation of the System are removed from the Mobile Unit(s) and from any other equipment used in the Franchised Business.

14.2 Right to Purchase

In the event that this Agreement is terminated for any reason or is not renewed, the Company shall have the right, but not the obligation, exercisable within thirty (30) days of the effective date of the termination or expiration of this Agreement, to repurchase at the then fair market value of any Mobile Unit(s) and equipment, including accessories, and the EOW generator. The Company shall also have the right, but not the obligation, exercisable by written notice delivered to you at any time after delivery of a notice of default hereunder or within thirty (30) days after the effective date of termination or expiration, to purchase for fair market value all or part of the other physical assets

used in the Franchised Business, except for your real property or personal assets, which may or may not include compensation for goodwill, and the purchase price shall be equal to the fair market value. If we cannot agree with you upon a fair market value within a reasonable time, each party shall designate an appraiser and both appraisers will agree on and designate a third independent appraiser to make the determination of fair market value, whose determination shall be binding. The parties shall share the cost of the appraisal equally. The closing of the purchase shall take place at a location, and on a date, chosen by the Company, acting reasonably, and shall be completed in accordance with all applicable bulk sales legislation. At closing, you shall deliver to the Company a bill of sale for the assets, in a form acceptable to the Company. The Company shall be entitled to set off against the purchase price any amounts then owed by you, and to pay out of the purchase price any of your unpaid creditors.

14.3 Continuing Obligations

All obligations of the parties hereto which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect notwithstanding such expiration or termination. In particular, but without limiting the generality of the foregoing, the provisions in Sections 6, 8, 10, 11, 14, and 16 hereof shall survive termination or expiration of this Agreement.

14.4 Transfer or Termination of Domain Names and Web Sites

In the event that you violated Section 7.8 hereof during the term of this Agreement, you agree that upon the termination or expiration of this Agreement, the Company will have the absolute right to notify InterNIC, any and all other registration agencies or companies, and all search engines of the termination or expiration of this Agreement and to authorize such agencies to transfer to the Company or its designee all domain names, web sites, and or other Internet related presence arranged or contracted by you and associated with the Franchised Business. You acknowledge and agree that the Company has the absolute right to, and interest in, all domain names, web sites, and any other Internet related presence associated with the franchise granted hereunder and the Company has the full right and authority to direct InterNIC and any other registration agency or company to transfer domain names, web sites or any other online presence arranged or contracted by you to the Company or its designee. You further acknowledge that this Agreement will constitute a release by you of InterNIC and all other registration agencies or companies and all other search engines from any and all claims, liabilities, actions and damages that you may, at any time, have the right to allege against them in connection with this Section 14.4.

15. MISCELLANEOUS

15.1 Relationship of Parties

You are an independent contractor. Neither party is the legal representative or agent of, or has the power to obligate, or to direct or supervise the daily affairs of, the other for any purpose whatsoever, and no partnership, joint venture, agency, or fiduciary or employment relationship is intended or created by reason of this Agreement. You shall take all reasonable steps necessary to clearly identify to the public that the Company is not the owner or operator of the Franchised Business and is not responsible for the acts or omissions of you and your employees, representatives, and agents. If requested by the Company, all of your invoices, work orders, contracts, etc. will identify your business as “an independently owned and operated franchise of Zerorez Franchising Systems, Inc.”

15.2 Notices

All communications required or permitted to be given under this Agreement shall be in writing and shall be delivered by any means which shall provide evidence of the date received, to the respective

parties at the following addresses or at such different addresses as may be designated at any time by written notice to the other party:

Company: ZEROREZ Franchising Systems, Inc.
1809 West State Street, Building B-2
Pleasant Grove, Utah 84062
12577 S. 265 W.
Draper, UT 84020
Attention: Shawn Moon, CEO

Franchisee: _____
dba Zerorez of _____
Attention: _____

15.3 Withholding of Payments

Should you have any claims against the Company for alleged non-performance by the Company of any of its obligations hereunder, those claims shall be submitted to arbitration as provided in Section 15.10. Should a dispute arise regarding payment due to the Company by you hereunder, you agree to deposit such disputed funds into an escrow held by an unaffiliated third party, acceptable to you and the Company, pending the outcome of such dispute.

15.4 Cross Default

Any default by you under any other agreement between the Company and you or any of your affiliates that permits the Company to terminate such other agreement shall be deemed to be a default of this Agreement, and the Company shall have the right, at its option, to terminate this Agreement.

15.5 Entire Agreement

This Agreement, including schedules, attachments, addenda, and any other documents expressly referred to herein, sets forth the entire agreement between the parties, fully superseding any and all prior negotiations, agreements, representations, or understandings between them, whether oral or written, pertaining to the subject matter hereof. The parties hereby expressly confirm that there are no oral or written agreements, arrangements, or understandings between them except as expressly reflected herein. Except as otherwise expressly provided herein, this Agreement may be amended only by a written document signed by both parties hereto. However, nothing in this Agreement or in any related agreement is intended to disclaim the representations that the Company made in its Franchise Disclosure Document.

15.6 Waiver and Delay

Any party who becomes aware of any claim or demand against the other shall have one year from the date such party became aware of, or with reasonable diligence should have become aware of, the facts giving rise to such claim in which to settle such claim or demand or to file a lawsuit with respect to it, or the claim or demand shall be deemed to have been waived and abandoned by such party. No waiver or delay by either party in requiring strict compliance with respect to any obligation of this Agreement or any agreement with other franchisees of the Company (or in the exercise of any right or remedy provided herein) and no custom or practice at variance with the requirements hereof shall constitute a waiver or modification of any such obligation, requirement, right or remedy, or preclude the exercise of any such right or remedy or the right to require strict compliance with any obligation set forth herein, or shall preclude, affect, or impair enforcement of any right or remedy

provided herein with respect to any subsequent default. All remedies, either under this Agreement, at law, in equity, or otherwise afforded to either party hereunder, shall be cumulative and not alternative and may be exercised simultaneously or sequentially in any order.

15.7 Partial Invalidity

In the event any term or provision of this Agreement is declared to be invalid or unenforceable for any reason, the provision shall be modified to the extent necessary to make it enforceable, or if it cannot be so modified, then severed, and the remaining terms of this Agreement shall remain in full force and effect, and it is hereby declared the intention of the parties that they would have executed the Agreement as so modified.

15.8 Interpretation

The captions used in this Agreement are inserted for convenience only and shall not affect the meaning or construction of this Agreement. The language of this Agreement shall be construed simply according to its fair meaning and not strictly for or against either party.

15.9 Successors

Subject to the restrictions on transfer in Section 12, this Agreement shall be binding upon and inure to the benefit of the permitted successors, assigns, heirs, and personal representatives of the parties.

15.10 Applicable Law

The Federal Arbitration Act shall govern all matters relating to arbitration. Except to the extent governed by the Federal Arbitration Act as required herein, the United States Trademark Act of 1946 or other federal law, this Agreement and the relationship between the parties hereto shall be governed by and interpreted in accordance with the laws of the State of Utah, which shall prevail in the event of any conflict of laws. This Agreement shall become valid when executed and accepted by the Company at ~~Draper~~ Pleasant Grove, Utah. It shall be deemed made and entered into in the State of Utah. In entering into this Agreement, you acknowledge that you have sought, voluntarily accepted, and become associated with the Company, which is headquartered in ~~Draper~~ Pleasant Grove, Utah, and that this Agreement contemplates and shall result in business relationships with the Company's headquarters personnel. The choice of law designation permits, but does not require, that all suits concerning this Agreement be filed in the State of Utah.

15.11 Arbitration of Certain Disputes

- (a) Except as provided in Section 15.11(b) below, any and all disputes or controversies between or among the parties hereto, and their respective shareholders, owners, corporate affiliates, officers, directors, employees, agents, or guarantors, including without limitation, any disputes or controversies based upon, arising out of, or in any way connected to this Agreement, any agreements ancillary to this Agreement, the relationship created hereunder, the offer or sale thereof, or operation, or management of any franchise or Franchised Business, shall be resolved in accordance with the Federal Arbitration Act through binding arbitration under the Commercial Arbitration Rules of the American Arbitration Association (“AAA”), as modified or supplemented as herein provided. An arbitration proceeding may be commenced by written notice from either party to the other requesting arbitration.
- (b) The following types of disputes and controversies shall not be resolved through arbitration as provided in Section 15.10(a) above: disputes and controversies based upon or arising

out of the Lanham Act, as now or hereafter amended, or otherwise relating to the ownership or validity of any of the Marks; disputes and controversies involving enforcement of the Company's rights under Sections 6, 8, and 13 of this Agreement; and disputes and controversies related to or based upon your failure to pay royalties or advertising fund contributions when due.

- (c) Three arbitrators who shall be selected by the AAA office in which the arbitration petition has been filed shall conduct any arbitration under Section 15.11(a) above. The parties desire that at least one arbitrator be an attorney familiar with franchising matters. The arbitrators shall have the power to order discovery on the basis of what is likely to produce material and relevant information in the proceeding, and to assess costs and expenses of the arbitration according to the relative merits of the parties' positions in the case. The arbitrators shall enter judgment by default in the event either party shall fail or refuse to appear or participate in any properly noticed arbitration proceeding. Damages recoverable in any action shall be limited to actual damages proved and neither party shall be entitled to recover special, consequential, punitive, or multiplied damages. The parties agree to be bound by the provisions of any limitation on the period of time within which claims may be brought under applicable law or this Agreement, whichever expires earlier. In connection with any arbitration proceeding, each party must submit or file any claim that would constitute a compulsory counterclaim (under the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim that is not submitted or filed will be forever barred.
- (d) The forum for any arbitration required hereunder shall be in the county in which the Company's principal headquarters are located.
- (e) In the event a dispute or claim arises hereunder involving both matters subject to arbitration under this Section 15.11 as well as matters not subject to arbitration under Section 15.11(b), all portions of such claim which are subject to arbitration shall be severed from the claims not subject to arbitration and shall be subject to arbitration hereunder, unless both parties agree to consolidation in a single action.
- (f) The provisions of this Section 15.11 are intended to benefit and bind certain third-party non-signatories and will continue in full force and effect subsequent to termination or expiration of this Agreement.

15.12 Attorneys' Fees

Should either party be required to enforce its rights hereunder, the prevailing party shall be entitled to recover its reasonable costs and expenses, including without limitation, attorneys' fees, costs, and such expenses on appeal, to be determined by the court or arbitrator, as the case may be and not a jury.

15.13 Personal Guarantees

If you are a corporation, limited partnership, or limited liability company, you agree that in order to induce the Company to enter into this Agreement, you will cause one or more of your principals acceptable to the Company to guaranty to the Company the full payment and performance of all your obligations under this Agreement, unless agreed otherwise by the parties. The form of such guaranty shall be as attached to this Agreement as Schedule D.

15.14 Operation of the Franchised Business

You acknowledge and agree that you shall be responsible for operating the Franchised Business and that you shall not enter into any management agreement or other similar arrangement for the

operation of the Franchised Business with any independent entity without the prior consent of the Company.

16. ACKNOWLEDGEMENTS

16.1 Risks

You acknowledge that you have conducted an independent investigation of the business contemplated by this Agreement, you recognize that it involves business risk, and that making a success of the venture is largely dependent upon your own business abilities. The Company expressly disclaims the making of, and you acknowledge that you have not received or relied on, any representation, warranty, or guaranty, expressed or implied, as to the potential volume, profits, or success of the business venture contemplated by this Agreement, except as expressly set forth in this Agreement and the Franchise Disclosure Document provided to you.

Franchisee's Initials _____ *Date* _____

16.2 No Other Representations

You expressly warrant that you have no knowledge of, and you have not relied upon, any representation or statement about the Franchised Business made by the Company or its officers, directors, shareholders, employees, agents, franchise sales representatives, or servants, whether written or oral, that is contrary to the terms of this Agreement or the Franchise Disclosure Document provided to you. You represent and warrant to the Company, as material inducement to its entry into this Agreement, that you have made no misrepresentations to the Company in connection with this Agreement.

Franchisee's Initials _____ *Date* _____

16.3 Advisors

You acknowledge that you have received, read, and understand this Agreement and the Franchise Disclosure Document delivered in connection with the Franchised Business; that you have had ample time and opportunity to review such documents with your own legal counsel and other advisors of your own choosing, if any, and to consult with them about the potential benefits and risks of entering into this Agreement; and that the Company has fully and adequately explained the provisions of such documents to your satisfaction.

Franchisee's Initials _____ *Date* _____

16.4 Variances

You acknowledge that the Company may from time to time approve exceptions or changes from the uniform standards of the System which the Company believes necessary or desirable under particular circumstances. You understand that you have no right to object to or automatically obtain such variances, and that any exception or change must be approved in advance by the Company in writing. You also understand that other existing or future franchisees may operate under different forms of agreements, and consequently the rights and obligations of such franchisees may differ materially from yours.

Franchisee's Initials _____ *Date* _____

16.5 Acknowledgements on Behalf of Shareholders, Partners and Co-Owners

You acknowledge and represent that each of your partners, shareholders, or members:

- (a) has received a copy of the Company's Franchise Disclosure Document at least fourteen (14) calendar days prior to your execution of this Agreement or any other binding agreement with the Company, or payment of any consideration to Company or any of Company's affiliates. You have read and understand the Company's Franchise Disclosure Document;
- (b) has received a final copy of this Agreement at least seven (7) days prior to your execution of this Agreement;
- (c) has read and understand same, including without limitation the acknowledgements of this Section 16.

Franchisee's Initials _____ *Date* _____

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the undersigned effective as of the Effective Date.

FRANCHISEE:

d/b/a Zerorez of _____

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

COMPANY:

ZEROREZ Franchising Systems, Inc.

By: _____

Name: _____

Title: _____

SCHEDULE A

OPERATING TERRITORY, INITIAL FRANCHISE FEE AND MINIMUM ROYALTY FEE

The Operating Territory shall be as described on the map identified as Schedule A-1.

Political and geographic boundaries described above or delineated on the attached map shall be considered fixed as of the Effective Date of the Franchise Agreement and shall not change for the purpose hereof notwithstanding a political reorganization or change to such boundaries or regions. All street boundaries shall be deemed to end at the street centerline unless otherwise so delineated or specified above.

	Lump Sum
Franchise Fee:	\$39,500
Additional Territory Fee:	\$ _____

	Minimum Royalty Fee
Months 1-18*	\$500 per month
Months 19-36*	\$1,500 per month
After month 36*	\$3,000 per month

* For purposes of calculating the required monthly minimum royalty fee: Month 1 shall begin on the first full calendar month after your Franchised Business opens and generates Gross Sales and continue for a period of eighteen (18) consecutive calendar months. Month 19 shall begin on the nineteenth full calendar month after your Franchised Business opens and generates Gross Sales and continues for a period of eighteen (18) consecutive calendar months. After the conclusion of thirty-six (36) full calendar months, the minimum royalty fee for the remainder of the Term and any renewal term shall be \$3,000 per month.

SCHEDULE A-1
OPERATING TERRITORY – MAP

SCHEDULE B

**LIST OF PARTNERS, OWNERS AND SHAREHOLDERS OF FRANCHISEE
OWNING MORE THAN 20% OF FRANCHISEE**

Name: _____

Title: _____

Ownership Percentage: _____

SCHEDULE C

AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS
(DIRECT DEBITS)

[Important Instructions for Completing this Form: Before we can process your Franchise Agreement, you must sign and return this authorization. If, at the time you sign your Franchise Agreement, you do not have your account set up, or if you do not yet know your account information, please show that you agree to the terms of this authorization by signing this form, leaving the account information blank, and returning the signed form with your Franchise Agreement. You can give us your account information when you receive it, but we must have the information before you open your store. If you have any questions about what this form means, you should get advice from your lawyer, your accountant or your bank.]

Your Name (or name of legal entity on Franchise Agreement): _____

Your Social Security Number (or legal entity Federal Tax ID Number): _____

Name on Bank Account (if different than above): _____

The undersigned ("ACCOUNT HOLDER") hereby authorizes Zerorez Franchising Systems, Inc. ("COMPANY") to initiate debit entries and/or credit correction entries to ACCOUNT HOLDER's checking and/or savings account(s) listed below at the bank, credit union or other depository listed below ("BANK") and to debit such account per COMPANY's instructions for any and all amounts due to COMPANY. The ACCOUNT HOLDER understands that all amounts debited from the account below will be credited to COMPANY's account. **INSTEAD OF COMPLETING THE INFORMATION REQUIRED ON THE FOLLOWING FOUR LINES, YOU MAY ATTACH A CANCELLED OR VOIDED CHECK TO THIS AUTHORIZATION, BECAUSE A VOIDED CHECK INCLUDES ALL OF THIS INFORMATION.**

NAME OF BANK		Branch
City	State	Zip Code
Telephone Number of Bank		Contact Person at Bank
Bank Transit/ABA Number		Account Number

This authority is to remain in effect until BANK has received joint written notice from COMPANY and ACCOUNT HOLDER of the ACCOUNT HOLDER's termination. Any termination notice must be given in a way as to give BANK a reasonable opportunity to act on it. If a debit entry is initiated to ACCOUNT HOLDER's account in error, ACCOUNT HOLDER shall have the right to have the amount of the error credited to the account by BANK, if (a) within fifteen (15) calendar days following the date on which BANK sent to ACCOUNT HOLDER a statement of account or a written notice regarding such entry or (b) forty-five (45) days after posting, whichever occurs first, ACCOUNT HOLDER shall have sent to BANK a written notice identifying such entry, stating that such entry was in error and requesting BANK to credit the amount thereof to such account. These rights are in addition to any rights ACCOUNT HOLDER may have under federal and state banking laws.

ACCOUNT HOLDER _____

By: _____

Title: _____

Date: _____

SCHEDULE D

GUARANTY

The persons who sign this Guaranty jointly and severally promise and guarantee to ZERO REZ Franchising Systems, Inc. that Franchisee will comply with and faithfully perform all of the Franchisee's obligations under the Franchise Agreement to which this Schedule D is attached, and under existing and future amendments and supplements to that Franchise Agreement, and all other obligations (now existing or hereafter created) to ZERO REZ Franchising Systems, Inc. This Guaranty is given to induce ZERO REZ Franchising Systems, Inc. to enter into the Franchise Agreement and is adequately supported by that consideration.

Any person who signs this Guaranty will have no obligation under this Guaranty under any amendments, supplements and other obligations created after the person has permanently terminated all direct and indirect interests in Franchisee and has delivered to ZERO REZ Franchising Systems, Inc., written notice of that termination. The written notice will be effective: (i) on the date that it is actually received by ZERO REZ Franchising Systems, Inc., at its then-current principal place of business, and (ii) only if it expressly states that the person disclaims any responsibility under this Guaranty for amendments supplements and other obligations created after the effective date of the notice. The persons who sign this Guaranty will by this guaranty remain obligated under the Franchise Agreement and all amendments, supplements and other obligations created before the effective date of the notice.

The persons who sign this Guaranty understand that their execution of this document is required for ZERO REZ Franchising Systems, Inc., to enter into the Franchise Agreement, to which this Guaranty is attached as an exhibit, with the Franchisee thereof.

Signature: _____
Name (print): _____
Address: _____
Date: _____

Signature: _____
Name (print): _____
Address: _____
Date: _____

Signature: _____
Name (print): _____
Address: _____
Date: _____

Signature: _____
Name (print): _____
Address: _____
Date: _____

SCHEDULE E

CONFIDENTIALITY AGREEMENT

This Confidentiality Agreement ("Agreement") is entered into by _____ (collectively referred to herein as "Employee"), an employee of _____ ("Employer"), a franchisee of ZEROREZ Franchising Systems, Inc., a Nevada corporation whose address is ~~12577 South 265 West, Suite 3A, Draper, UT 84020~~ 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062, ("Franchisor"), effective as of _____, 20__.

WHEREAS, in the normal course of his employment, the Employee has access to certain information that is confidential to either the Employer or the Franchisor, which information consists of items such as the identity of customers, pricing and business strategies, techniques, procedures, financial information, and business systems and plans (the "Confidential Information");

WHEREAS, the Employer is bound by certain confidentiality requirements in its Franchise Agreement with the Franchisor, including the obligation to have its employees sign a Confidentiality Agreement in the form of this Agreement;

WHEREAS, the Employee agrees that his continued employment is adequate and sufficient consideration for this agreement.

In consideration of the foregoing covenants, and for other good and valuable consideration, the Employee hereby agrees as follows:

1. Restrictions. Except as strictly necessary in the performance of Employee's work, duties and responsibilities for and to Employer, or as specifically authorized in writing by Employer and Franchisor, Employee covenants and agrees not to directly or indirectly: (a) disclose or transfer any Confidential Information to any other person, business or entity; or (b) use, sell or exploit any Confidential Information or aid, encourage or allow any other person, business or entity to disclose, transfer, use, sell or exploit any Confidential Information.

2. Documents. Any and all documents, operating manuals, notebooks, drawings, papers, plans, designs, computer programs, and computer storage media used, purchased, developed, or modified by Employer or Franchisor are the sole and exclusive property of Employer and/or Franchisor, and Employee shall deliver any and all of the foregoing in the possession or control of Employer to Employer upon Employer's request or upon termination of Employee's employment.

3. Survival. Employee acknowledges and agrees that this agreement relating to the disclosure of Confidential Information shall survive after the termination of Employee's employment with Employer and Employee shall comply with all covenants and agreements at all times after the termination of Employee's employment with Employer.

4. Injunctive Relief. Employee agrees that Employer shall be entitled to preliminary and other injunctive relief that may include, but shall not be limited to, restraining Employee from rendering any services or performing any activity that would breach this Agreement, an order for specific relief, and other equitable relief.

5. Miscellaneous. This Agreement cannot be modified or altered nor can any provision hereof be waived except in writing signed by Employer, Employee and Franchisor. In case any one or more of the provisions of this Agreement shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, any invalid, illegal, or unenforceable provision(s) shall be curtailed, limited, construed or eliminated to the extent necessary to remove the invalidity, illegality, or unenforceability with respect to the applicable law as it shall then be applied and the other provisions of this Agreement shall not be affected thereby.

This Agreement shall be governed by and construed in accordance with the laws of the State of Utah. In the event of an action relating to the performance, breach or interpretation of this Agreement, the prevailing party in the action shall be entitled to recover from the non-prevailing party all reasonable costs and expenses of the action, including attorneys' fees, court costs, and costs of investigation.

Employee Address:

Employee's Signature

SCHEDULE F
PROMISSORY NOTE

\$ _____

[DATE]
Draper Pleasant Grove, Utah

FOR VALUE RECEIVED, _____ (“Borrower”), hereby covenants and promises to pay to the order of Zerorez Franchising Systems, Inc. (“Lender”), the sum of \$ _____ in lawful money of the United States of America, to be paid as described in this Promissory Note (this “Note”).

1. **Interest.** No interest shall accrue on the principal amount.
2. **Payments.** Borrower agrees to pay to Lender \$ _____ per month, for _____ (__) months, beginning six (6) months from the date the execution of this Note. The entire balance of principal, together any other amounts due hereunder, must be paid in full _____ (__) months from the execution date of this Note. Borrower may prepay all or any portion of the principal at any time prior to the above date without penalty. Payments shall be applied first to the payment of any default interest or Late Charges, and second, to the payment of any then outstanding principal. This Note is made pursuant to a Franchise Agreement between Borrower and Lender.
3. **Default and Acceleration.** Borrower covenants and agrees that if any payment required hereunder is not paid within five (5) days of the due date, or the entire Debt (defined below) is not paid on or before the maturity date (each of the foregoing, a “Default”), then at the option of Lender the whole of the principal sum of this Note, default interest, late charges and other sums, as provided in this Note (the “Debt”) shall without notice become immediately due and payable. Whenever any payment to be made under this Note shall be stated to be due on a day which is not a Business Day (hereinafter defined), the due date thereof shall be the Business Day immediately succeeding such day. For purposes hereof, the term “Business Day” shall mean any day other than a Saturday, Sunday or any other day on which banks in Salt Lake City, Utah are not open for business. Upon any transfer or sale of your Zerorez franchise, the entire unpaid principal and accrued unpaid interest under this Note will become immediately all due and payable without further notice and such unpaid amounts shall, to the fullest extent possible, be satisfied with the proceeds of any such sale or transfer.
4. **Default Interest.** Borrower agrees that upon the occurrence of a Default, Lender shall be entitled to receive and Borrower shall pay interest on the entire unpaid balance of this Note at a per annum rate equal to the lesser of eighteen percent (18%) or the maximum interest rate allowed under applicable law (the “Default Rate”). The Default Rate shall be computed from the first day of the occurrence or event giving rise to such Default (without regard to any notice or grace period) until the earlier of the date upon which the Default is cured or the date upon which the Debt is paid in full. Interest calculated at the Default Rate shall be compounded daily and deemed part of the Debt. This clause, however, shall be construed neither as an agreement or privilege to extend the date of the payment of the Debt, nor as a waiver of any other right or remedy accruing to Lender by reason of the occurrence of any Default.
5. **Late Charge.** If any amount payable under this Note is not paid within five (5) days of the due date, Borrower shall pay to Lender upon demand an amount equal to the lesser of ten percent (10%) of such unpaid sum or the maximum fee allowed under applicable law (the “Late Charge”) to defray the expenses incurred by Lender in handling and processing the delinquent payment and to compensate Lender for the loss of the use of the delinquent payment. The Late Charge shall be deemed part of the Debt and shall be paid within ten (10) days after demand by Lender. If the Late Charge is not paid when due, such amount shall bear interest at the Default Rate until paid. Notwithstanding the above, the Late Charge shall not exceed the maximum amount permitted by applicable law.

6. Cross Default. Any default by Borrower that permits Lender to terminate the Franchise Agreement pursuant to which this Note was made shall be deemed to be a default under this Note, and Lender shall have the right, at its option, to accelerate this note and the entire Debt shall become immediately due and payable.

7. Attorneys' Fees. In the event any legal proceedings are instituted in connection with this Note, the prevailing party shall be entitled to recover from the other party its court costs and reasonable attorneys' fees.

8. Waiver. Borrower and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, protest and notice of protest and non-payment and all other notices of any kind, except for notices expressly provided for in this Note. No extension of time for payment of this Note or any installment hereof, and no alteration, amendment or waiver of any provision of this Note made by agreement between Lender or any other person or party shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Borrower, and any other person or entity who may become liable for the payment of all or any part of the Debt, under this Note. No notice to or demand on Borrower shall be deemed to be a waiver of the obligation of Borrower or of the right of Lender to take further action without further notice or demand as provided for in this Note.

9. Severability/Binding Effect. If any provision of this Note or the application thereof shall, for any reason and to any extent, be invalid or unenforceable, neither the remainder of this Note nor the application of the provision to other persons, entities or circumstances shall be affected thereby, but instead shall be enforced to the maximum extent permitted by law. The covenants, obligations and conditions herein contained shall be binding on and inure to the benefit of the heirs, legal representatives, and assigns of the parties hereto.

10. Modification. No addition to, or modification or amendment of, any provision contained in this Note shall be effective unless fully set forth in writing and executed by both Lender and Borrower.

11. Headings. Whenever used, the singular number shall include the plural, the plural number shall include the singular, and the words "Lender" and "Borrower" shall include their respective permitted successors, assigns, heirs, executors and administrators.

12. Acknowledgments. Borrower agrees (a) that an amount equal to the Late Charge plus the accrual of interest at the Default Rate is a reasonable estimate of the damage to Lender in the event of a late payment, and (b) that the accrual of interest at the Default Rate following any other Default is a reasonable estimate of the damage to Lender in the event of such other Default, regardless of whether there has been an acceleration of the loan. Nothing in this Note shall be construed as an obligation on the part of Lender to accept, at any time, less than the full amount then due hereunder, or as a waiver or limitation of Lender's right to compel prompt performance.

13. Notice. Any notice which a party is required to give the other shall be in writing and sent by personal delivery or by United States registered or certified mail, return receipt requested, postage prepaid, or by Federal Express or similar generally recognized overnight carrier regularly providing proof of delivery, addressed as follows (subject to the right of a party to designate a different address for itself by notice similarly given):

To Lender:

Zerorez Franchising Systems, Inc.
1809 West State Street, Building B-2
12577 South 265 West, Suite 3A
Draper, UT 84020
Pleasant Grove, Utah 84062Attention:

To Borrower:

Any notice so sent shall be deemed given upon receipt if personally delivered or upon confirmation of receipt if sent by mail or overnight carrier.

14. Governing Law. This Note shall be governed by, and construed in accordance with, the internal laws of the State of Utah.

IN WITNESS WHEREOF, the undersigned has executed this Note to be effective the day and year first written above.

BORROWER:

EXHIBIT C
FINANCIAL STATEMENTS

(Added graphics)



AUDITOR'S CONSENT

Larson & Company P.C. hereby consents to the use in the unit Franchise Disclosure Document issued by Zerorez Franchising Systems, Inc. ("Franchisor") on March 30, 2020, as it may be amended, of our reports dated March 25, 2020 and March 18, 2019, relating to the financial statements of Franchisor for the periods ending December 31, 2019, 2018 and 2017.

A handwritten signature in black ink that reads "Larson & Company P.C.".

Salt Lake City, UT
March 30, 2020

Larson & Company
11240 South River Heights Drive, Suite 300, Salt Lake City, UT 84095
Main: (801) 313-1900 | Fax: (801) 313-1912
www.larso.com

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(Added graphics)

Zerorez Franchising Systems, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT
For the Years Ended December 31, 2019 and 2018



(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

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(Added graphics)



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Zerorez Franchising Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Zerorez Franchising Systems, Inc. and Subsidiaries (a state of Nevada corporation), which comprises the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zerorez Franchising Systems, Inc. and Subsidiaries as of December 31, 2019 and 2018 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.

A handwritten signature in black ink that reads "Larson B. Coyle, P.C.".

Salt Lake City, Utah
March 25, 2020

Larson & Company
11240 South River Heights Drive, Suite 300, Salt Lake City, UT 84095
Main: (801) 313-1900 | Fax: (801) 313-1912
www.larsoncpa.com

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(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
 Consolidated Balance Sheets
 For the Years Ended December 31, 2019 and 2018

	<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Assets:			
Cash and cash equivalents		\$ 234,348	\$ 1,153,694
Accounts receivable, net		11,853	74,935
Notes receivable, net		1,339,408	1,254,542
Related party notes receivable, due on demand		507,202	445,524
Intangible asset, net		144,859	227,636
Prepaid expense and other		-	4,687
Fixed assets, net		986,519	892,886
Deposits		20,709	3,400
Total assets		\$ 3,244,898	\$ 4,057,304
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Liabilities:			
Accounts payable and accrued expenses		\$ 200,528	\$ 318,860
Notes payable		45,500	45,500
Line of credit		639,519	944,756
Royalty and territory pre-payment		271,361	464,105
Deferred salaries		888,963	912,963
EAU license fees		54,925	84,630
Related party notes payable		1,160,160	1,092,538
Equipment notes payable		275,532	287,745
Total liabilities		3,536,488	4,151,097
Stockholders' equity:			
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 18,363,179 issued and 17,438,179 outstanding		1,836	1,836
Treasury stock, 925,000 shares at cost		(268,575)	(268,575)
Additional paid-in capital		7,665,799	7,665,799
Accumulated deficit		(7,690,650)	(7,492,853)
Total stockholders' equity (deficit)		(291,590)	(93,793)
Total liabilities and stockholders' equity (deficit)		\$ 3,244,898	\$ 4,057,304

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

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
Revenue:		
Royalty fees	\$ 3,222,458	\$ 2,957,882
Territory fees	278,888	528,701
Initial franchise fees	236,500	118,500
Consumer income	536,493	244,441
Service and vendor income	1,293,623	1,130,320
Total revenue	5,567,962	4,979,854
Cost of goods sold	239,523	70,304
Gross profit	5,328,439	4,909,550
Operating expenses:		
Payroll	1,652,096	1,323,419
General and administrative	1,120,013	961,175
Legal and professional	1,371,147	1,287,554
Advertising	1,047,717	1,381,502
Depreciation and amortization	248,754	204,434
Total operating expenses	5,439,727	5,158,084
Income (loss) from operations	(111,288)	(248,534)
Other income and expense:		
Finance charges	(32,316)	(38,508)
Interest expense	(56,076)	(35,935)
Interest and other income	1,883	4,140
Total other income and expense	(86,509)	(70,303)
Net loss	\$ (197,797)	\$ (318,837)

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

4

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
 Consolidated Statements of Changes in Stockholders' Equity
 For the Years Ended December 31, 2019 and 2018

	Treasury Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficit)
	Shares	Value	Shares	Value			
Balance,							
December 31, 2017	775,000	\$(193,700)	17,688,179	\$ 1,836	\$ 7,665,799	\$ (7,174,016)	\$ 299,919
Stock Redemption	150,000	(74,875)	-	-	-	-	(74,875)
Net loss	-	-	-	-	-	(318,837)	(318,837)
Balance,							
December 31, 2018	925,000	\$(268,575)	17,688,179	\$ 1,836	\$ 7,665,799	\$ (7,492,863)	\$ (93,793)
Net loss	-	-	-	-	-	(197,797)	(197,797)
Balance,							
December 31, 2019	<u>925,000</u>	<u>\$(268,575)</u>	<u>17,688,179</u>	<u>\$ 1,836</u>	<u>\$ 7,665,799</u>	<u>\$ (7,690,660)</u>	<u>\$ (291,590)</u>

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

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ (197,797)	\$ (318,838)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	248,754	204,434
(Increase) decrease in:		
Accounts receivable	63,082	(74,240)
Deposits	(17,309)	(3,400)
Prepaid expense	4,687	252,814
Increase (decrease) in:		
Accrued expenses	(118,332)	34,085
EAU license fees	(29,705)	(28,821)
Royalty and territory pre-payment	(192,744)	(192,744)
Deferred salaries	(24,000)	(16,000)
Net cash flows from operating activities	<u>(263,364)</u>	<u>(142,810)</u>
Cash flows from investing activities:		
Collection of notes receivable	714,331	404,532
Issuance of notes receivable	(860,874)	(447,307)
Software development	(154,460)	(145,720)
Fixed assets purchased	(137,344)	(314,395)
Net cash flows from investing activities	<u>(438,347)</u>	<u>(502,890)</u>
Cash flows from financing activities:		
Issuance of notes payable	213,673	351,894
Repayment on notes payable	(126,071)	(335,149)
Draws on line of credit	238,943	635,000
Payments on line of credit	(544,180)	(86,712)
Net cash flows from financing activities	<u>(217,635)</u>	<u>585,033</u>
Net change in cash and cash equivalents	(919,346)	(80,667)
Cash and cash equivalents, beginning of year	1,153,694	1,214,361
Cash and cash equivalents, end of year	<u>\$ 234,348</u>	<u>\$ 1,153,694</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 56,076	\$ 49,041
Cash paid for income taxes	\$ -	-

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

6

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

1. ORGANIZATION

Zerorez Franchising Systems, Inc. (ZFS), formerly H2O AquaCare Franchising Systems, Inc., was organized and incorporated in Nevada in February 2001. During 2018, ZFS established one of its franchised outlets, Zerorez Tulsa, Inc. During 2019, ZFS purchased two of its franchised outlets, Zerorez Sacramento, Inc., and Zerorez Capital District, Inc. Zerorez Sacramento, Inc. has been sold as of December 31, 2019.

ZFS was organized to develop and market a variety of environmentally correct and safe technologies and products nationwide that include 1) a revolutionary and patented method for cleaning and sanitizing carpets, upholstery, and hard surfaces without the use of soaps or shampoos and that leaves no residue; 2) Medical device air sanitation technology; and 3) a surface coating technology that provides disinfecting capabilities for up to 6 months after application.

The Company had 58 and 51 franchised outlets with operations during the years ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2019 Zerorez Tulsa, Inc. and Zerorez Capital District, Inc. were the only owned and operated franchise outlets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") using the accrual method of accounting. All income is recorded when earned and all expenses are recorded when incurred regardless of when such amounts are received or paid.

Basis of Consolidation

The consolidated financial statements of ZFS and its wholly-owned subsidiaries (the Company) presented herein contain the accounts of all entities. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever a triggering event or circumstantial changes indicate the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which the asset recorded at the lower of carrying amount or fair value less costs to sell.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid financial instruments with a maturity of less than three months to be cash equivalents.

The Company maintains its cash and cash equivalent balances at financial institutions in various locations which at times may exceed the federally insured limits of \$250,000 set by the Federal Deposit Insurance Corporation. The accounts are held by financial institutions that are well established and highly regarded. The Company has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

Accounts receivable represent royalties due from the Company's franchisees. The Company maintains an allowance for doubtful accounts to reserve for potential uncollectible receivables. The balance in the allowance for doubtful accounts was \$0 as of December 31, 2019 and 2018. The Company's policy for charging off trade receivables against the allowance is to consider write-down of receivables extending beyond 120 days after significant collection efforts have been made or when the financial condition of debtors warrants charge-off. Trade receivables are determined to be past due after 90 days regardless of whether partial payments have been received.

Notes Receivable

Notes receivable relates to franchisee fees or cash advances which are due from various franchisees. When considered necessary, the Company maintains an allowance for doubtful accounts to reserve for potential uncollectible notes receivable. The balance in this account as of December 31, 2019 and 2018 was \$0.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated economic useful lives of the respective assets, as follows:

<u>Assets</u>	<u>Useful Lives</u>
Computer and telephone equipment	3 years
Furniture and fixtures	5 years
Vehicles	5 years
Software	10 years

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

The Company's intangible assets consist of a license agreement which allows the Company to acquire and use certain patented products in its business. The agreement was effective December 30, 2010. See Note 9 for further information.

Intangible assets are initially recognized and measured at fair value in accordance with ASC 805, *Business Combinations*. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates intangible assets with definite lives for impairment when impairment indicators are noted in accordance with ASC 350, *Intangibles – Goodwill and Other*. See Note 9 for details regarding the useful lives of various intangibles acquired as part of the business combination.

Revenue Recognition

The Company's primary sources of revenues are from franchise fees, service fees, royalty sales, and consumer sales.

Initial Franchise Fees

The minimum initial franchise fee is due upon the completion of initial training and commencement of operations and entitles the franchisee to one exclusive operating territory. Sometimes the Company will help finance these payments with a notes receivable that has additional interest earned. The Company defers recognition of initial franchise fees until the Company has performed substantially all initial training and commencement services required by the franchise arrangement.

Territory and Royalty Fees

The Company receives ongoing revenue from royalty fees that are based on percentages of the franchisees' gross receipts or minimum amounts, both of which are due on a monthly basis. Ongoing royalties are recognized when reported to the Company by the franchisee, which is generally in the month following the franchisees' sales.

The Company also receives additional Territory Fees when the franchisees want to expand their presence and obtain additional Territory. Once the Company has designated additional Territory for the franchisees for allow them to begin selling in those specific territories, the Company then recognizes these additional Territory fees as revenue.

Service Income

The Company also receives service fees which are comprised of payroll processing, advertising fees, and technology licensing. Service fees are recognized when the Company has provided the franchisees the usage of these services which is usually over time. The Company therefore, recognizes these revenue monthly at the rate they are billed and collected.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Consumer Income

As mentioned previously, the corporate owned stores provide carpet and furniture cleaning services to consumers. Payments are received after such services or products are delivered. Revenue is earned when such services and products are provided which is usually provided at point of sale.

Vendor Income

The Company collects from its vendors certain rebates and conference fees. Rebates are received for the successful completion of sales that the vendor generated based on referral made by the Company of its franchisees base. Revenue is considered earned when such vendor sales are accomplished. Conference fees are for vendor's rental of a booth space at the Company's annual franchising conference. When cash is received at the time of registration, revenue is deferred until the completion of the conference.

The following summarizes revenue that are generated over-time or at a point in time for the year ended December 31, 2019 is as follows:

	<u>2019</u>
Revenue earned at a point in time	
Initial franchise fees	\$ 238,600
Territory fees	278,888
Consumer income	638,483
Vendor income	83,848
Revenue earned over time	
Royalty fees	3,222,468
Service income	1,228,774
Total revenue	<u>\$ 5,687,962</u>

Total beginning and ending unearned revenue balance for the year ended as of December 31, 2019 is as follows:

	<u>2019</u>
Beginning unearned revenue	\$ 464,105
Ending unearned revenue	\$ 284,362
Beginning accounts receivable	\$ 74,935
Ending accounts receivable	\$ 11,853

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising expenses were \$1,045,217 and \$1,378,086 for years ended December 31, 2019 and 2018, respectively.

During the year ended December 31, 2018, \$500,000 of total advertising expenses incurred relate to the development of video advertising materials produced by Harman Brothers for their online advertisement campaign that was launched during 2018.

Federal Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income in the period the new legislation is enacted. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based on evaluation of the facts, circumstances, and information available at the reporting date. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. As of December 31, 2019 and 2018, the Company did not have any uncertain tax positions or interest or penalties related to unrecognized tax benefits. The Company's 2017, 2018, and 2019 tax years remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accrued expenses all approximate fair value due to the short-term maturities of these assets and liabilities.

Recent Accounting Pronouncements

During 2014 and 2015, the FASB issued Accounting Standards Update 2014-09 and 2015-14, Revenue from Contract with Customers, respectively, which revises previous revenue recognition standards to improve guidance on revenue recognition requirements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance also provides additional disclosure requirements and clarification for revenue recognition for principal vs. agent parties. Subsequent ASUs provided additional clarity to the specifics of terminology used in the core principle.

On May 28, 2014, FASB issued the New Revenue Standard, also referred to as ASC 606, *Revenue From Contracts With Customers* ("ASC 606"), which replaces numerous revenue recognition requirements in GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with Customers. The New Revenue Standard establishes a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for satisfaction of those performance obligations, or standalone selling price. The New Revenue Standard also requires new, expanded disclosures regarding revenue recognition. See Revenue Recognition Section noted earlier for details. The Company adopted the provisions of the New Revenue Standard effective January 1, 2019, using modified retrospective method. The adoption of this new guidance did not have any material impact to the Consolidated Statements of Income and Cash Flows.

In March of 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*, which requires all leases that have a term of more than 12 months to be recognized as assets and liabilities on the balance sheet at inception. A lessee would recognize a lease liability to make lease payments owed to a lessor (liability) and a benefit for the right to use the leased asset (asset) for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. This new guidance is effective for fiscal years beginning after December 15, 2019. The Company is currently assessing the impact of the amount of leases that will need to be capitalized as a result of this guidance.

Reclassification

Certain amounts in prior year financials were reclassified to match the current year presentation. This reclassification did not have an impact on the change in net assets for the year ended December 31, 2019.

3. CONCENTRATION OF CREDIT RISK

The Company's customers may be affected by changing economic conditions. Management believes that its credit review procedures and loss reserves (if any) have adequately provided for usual and customary credit-related losses. During the years ended December 31, 2019 and 2018, the Company recorded \$3,826 and \$529, respectively, of bad debt expense for such allowances and write-offs from continued operations. Refer to Note 2 for additional details regarding the Company's accounts receivable charge-off policy.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

4. FIXED ASSETS

During the year ended December 31, 2014, the Company began the development of internal software which will be used in future franchise operations. All costs related to the development of the software have been capitalized. Internally developed software costs are depreciated over a period of 10 years from the earlier of the date the cost was incurred or the date the software was put into service.

Software and fixed assets in use as of December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Software	\$ 1,007,237	\$ 852,777
Vehicles	391,669	314,394
Furniture and fixtures	90,175	90,175
Territory license	<u>27,875</u>	<u>-</u>
Total software, furniture and equipment	1,516,956	1,257,346
Less: accumulated depreciation	<u>(530,437)</u>	<u>(364,460)</u>
Net software, furniture and equipment	<u>\$ 986,519</u>	<u>\$ 892,886</u>

Depreciation expense from continued operations related to software and fixed assets totaled \$248,754 and \$204,434 for the years ended December 31, 2019 and 2018, respectively.

5. RELATED PARTY TRANSACTIONS

The Company has sold products to and collected royalties from franchisees owned by affiliates or shareholders. Total revenue from these entities for the years ended December 31, 2019 and 2018 was \$617,382 and \$563,245, respectively. Notes receivable from related entities were \$507,202 and \$445,524 for the years ended December 31, 2019 and 2018. All notes receivable are interest-free with no pre-determined maturity dates.

Certain note payable balances were with related parties (primarily officers). See Note 8 for further information.

The Company leases office space on a month-to-month basis from a franchisee owned by affiliates or shareholders. Rent expense with related parties was \$30,000 and \$30,000 for the years ended December 31, 2019 and 2018.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
 Notes to the Consolidated Financial Statements
 For the Years Ended December 31, 2019 and 2018

6. NOTES PAYABLE

During September 2011, the Company entered into a note payable agreement to settle a disputed balance to a former franchisee in the amount of \$100,000. Specified payments of \$5,000 to \$7,000 are due to the franchisee when new franchisees are received by the Company from each and every new Zerorez franchise that is started after the date of the agreement, until the franchisee has received a total of \$100,000. No interest is currently being accrued on the note. However, a 12% interest per annum will be accrued on any late payments under the agreement. The Company is current with all its payments associated with this note as of December 31, 2019 and 2018. This note is listed in the table below:

	2019	2018
Note payable	\$ 45,500	\$ 45,500
Less current portion	(45,500)	(45,500)
Noncurrent portion of notes payable	\$ -	\$ -

The Company entered into three 6-year financing notes payable for the acquisition of vehicles for its Tulsa operations during 2018. Interest rates on these notes payable range from 6.48% to 6.79% with interest accruing monthly. Fixed monthly payments are made till maturity. Notes payable is collateralized by the respective vehicles. As of December 31, 2019 and 2018, outstanding balance related to these vehicle notes payable were as follows:

	2019	2018
Equipment Loan		
Vehicle notes payable	\$ 275,532	287,745

The Company is current with all of its payments. As of December 31, 2019, the vehicle notes payable will mature as follows:

2020	\$	62,318	
2021		66,531	
2022		61,873	
2023		50,861	
2024		29,685	
2025 and thereafter		4,264	
Total	\$	275,532	

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

7. RELATED PARTY NOTES PAYABLE

Related party notes payable consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Notes payable to related parties with no interest. Monthly payments over a 76 month period.	128,700	158,700
Note payable to related parties with no interest. Due at the Company's discretion. Unsecured.	<u>1,031,460</u>	<u>933,838</u>
Total related party notes payable	1,160,160	1,092,538
Less current portion	-	-
Noncurrent portion of related party notes payable	<u>\$ 1,160,160</u>	<u>\$ 1,092,538</u>

Effective January 1, 2016, some of the related party notes payable that bore an interest at 10% were subsequently amended to a 0% interest rate.

8. LINE OF CREDIT

The Company has a line of credit with a bank in the amount of \$1,500,000 at an interest rate of 3.75%, plus the 3 month LIBOR rate. As of December 31, 2019 and 2018, there was an outstanding balance of \$639,519 and \$944,756 on the line of credit, respectively. The line of credit expires on March 27, 2020 and is secured by inventory, equipment, and accounts of the Company.

9. INTANGIBLE ASSETS

In November 2010, the Company entered into a License Agreement for the acquisition and use of rights to their patented products, including a specialty fluid used for carpet cleaning purposes. The right to acquire and use these products began on December 30, 2010. This agreement was automatically renewed on December 29, 2015 for an additional five years.

As part of the agreement, the Company paid a total of \$100,000 in cash and assumed a notes payable in the amount of \$126,500. Subsequently, the Company paid \$7,500 on a quarterly basis through October 2016 with the first payment due in October 2011, in relation to the initial lease term. Using the Company's incremental borrowing rate of 14%, the quarterly payments were estimated to have a present value of \$99,506. As a result of this transaction, \$326,006 was recognized on the balance sheet as an intangible asset. This balance is amortized over the expected remaining patent life of 10 years on a straight-line basis.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

9. INTANGIBLE ASSETS (Continued)

At the renewal date on October 1, 2016, an additional \$135,342 asset and liability were recorded related to the present value of future payments during the renewal term using the 2016 estimated borrowing rate of 4%. Under this renewal term, the Company will pay \$7,500 on a quarterly basis through October 2021. The incremental asset capitalized in 2016 will be depreciated using the remaining estimated useful life of the patent of 4 years.

Prior to the expiration of this renewal term, the terms of this agreement were amended to change the quarterly payment amount and also include a renewal fee. As a result of this amendment to the renewed lease, the right of use asset was increased by \$119,563 to a total of \$580,911. A liability was recorded to reflect the present value of future payments during the amended renewal term using the 2017 estimated borrowing rate of 4%. Under this amended renewal term, the Company will pay \$8,138 on a quarterly basis through October 2021. The incremental asset capitalized in 2017 will also depreciate using the remaining estimated useful life of the patent of 4 years.

As a result, the related accumulated amortization was \$436,052 and \$353,275 as of the years ended December 31, 2019 and 2018, respectively. Amortization expense related to this asset totaled \$82,777 and \$82,777 for the years ended December 31, 2019 and 2018. Expected amortization expense related to this asset in future years is as follows:

2020	\$ 82,777
2021	62,082
Total amortization expense	<u>\$ 144,859</u>

10. OPERATING LEASE

The Company leases office space on a month-to-month basis. Total rent expense related to these month-to-month leases was \$67,216 and \$44,500 for the years ended December 31, 2019 and 2018.

The Company entered into a 3-year operating lease for the Tulsa location commencing on March 1, 2018. Future lease payments are as follows:

2020	\$ 16,800
2021	2,800
Total	<u>\$ 19,600</u>

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

10. OPERATING LEASE (Continued)

The Company entered into a 5-year operating lease for the Capital District Location commencing July 1, 2019. Future lease payments are as follows:

2020	\$ 15,000
2021	15,000
2022	15,312
2023	15,624
2024	7,812
Total	\$ 68,748

11. INCOME TAXES

Significant temporary differences and their related deferred tax assets as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Net operating loss carryforwards	\$ 1,373,278	\$ 1,509,941
Accrued expenses	-	2,412
Deferred salaries	231,190	237,370
Total deferred tax assets	1,604,468	1,749,723
Valuation allowance	(1,604,468)	(1,749,723)
Net deferred tax assets	\$ -	\$ -

As a result of the Company's history of losses, a valuation allowance has been provided for the full amount of the Company's net deferred tax assets. In addition, utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

For the purpose of federal income tax, the Company has tax carryforwards and credits as of December 31, 2019, which expire between 2025 and 2034.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

12. TREASURY STOCK

During the year ended December 31, 2017, the Company purchased 775,000 shares of common stock from one of its shareholders. The buyout resulted in a note payable with this shareholder totaling \$193,700. Under the terms of this note, payments of \$2,500 a month will be paid until the note is fully repaid. The stock is held in treasury and recorded using the cost method.

During the year ended December 31, 2018, the Company received 150,000 shares of common stock of one of its shareholders in exchange for a \$74,875 reduction to a Promissory Note. The stock is held in treasury and recorded using the cost method.

13. EMPLOYMENT AGREEMENTS

In June 2008, the Company entered into three Executive Employment Agreements which expired in December 2018. These agreements stipulate the executives' duties, compensation and payments due upon termination. These agreements have been extended for three more years upon written consent of all parties.

According to these agreements, if one of these executives is terminated without cause, the following payments to the executive will be required. First, the executive's full base salary in effect prior to the reason for termination through the date of the executive's termination shall be paid.

In addition, an amount equal to executive's base salary payments to which the executive would have been entitled for a period of the longer of either the remainder of the employment term or 24 months from the date of the executive's termination, as if such termination had not occurred. Also, the Company shall maintain the executive's health, dental and life insurance benefits until the earlier of one year or the date on which the executive obtains subsequent insurance coverage. Lastly, at the executive's option, the Company shall purchase the executive's shares of common stock then held at a price equal to 20% above the average selling price of the Company's stock 90 days prior to termination.

Upon death or disability of one of these executives, an amount equal to 12 months of the executive's then base salary shall be paid in addition to any other pension benefits to which the executive would be entitled. As of December 31, 2019 and 2018, two of these executives were still employed by the Company.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

14. CONSULTING AGREEMENTS

In 2008, the Company entered into two consulting agreements which are set to expire in December 2021. These agreements stipulate the consultants' duties, compensation, and payments due upon termination.

According to these agreements, if one of these consultants is terminated upon sale of the Company, the Company is required to ensure that the shares of common stock then owned by the consultant are sold at the same price and upon the same terms as that of other shareholders; or the Company must use its best efforts to ensure that the purchasing person and/or entity shall retain the consultant upon the same terms and conditions as contained in the agreement.

During 2013, the Company entered into four new consulting agreements. These agreements stipulate the consultants' duties and compensation terms. These agreements are to continue unless terminated by the mutual agreement of the parties.

For the years ended December 31, 2019 and 2018, the Company recorded \$0 and \$6,500 in consulting fees under these agreements.

15. BUSINESS COMBINATION

Sacramento Purchase and Sell

On January 31, 2019, the Company entered into an asset purchase agreement with East Street Sacramento, LLC, an unrelated party, to acquire the assets and liabilities related to Zerorez Sacramento California and reposition the franchise with another franchisee. As a result of the acquisition, the following assets and liabilities were purchased.

Fixed assets	\$	313,496
Liabilities		<u>(73,996)</u>
Net Assets	\$	<u>239,500</u>

The Company paid for this transaction through the extinguishment of an outstanding notes receivable East Street Sacramento, LLC had outstanding with the Company.

On March 25, 2019, the Company found a new franchisee and sold the related assets and liabilities for \$367,000 in the form of a promissory note payable in 5 years.

As a result of this transaction, the Company recognized a gain of \$127,500, which is recorded as part of the Territory fees.

(Added graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

15. BUSINESS COMBINATION (Continued)

Albany Purchase

On January 2, 2019, the Company purchased from Choice Work, LLC, an unrelated party, assets related to Zerorez Capital District Albany and its operations. The purchase of the purchase was to increase the profitability of Capital District Albany Territory through corporate owned franchises. As a result of the acquisition, the following assets were purchased.

Territory license	\$	27,876
Fixed assets		30,417
Net Assets	\$	<u>58,293</u>

The Company paid for this transaction for \$58,293 with \$30,417 in cash and the remaining through a promissory note of \$27,876 payable within 12 months.

16. CONTINGENCIES

During the year ended December 31, 2019, the Company received notice of a lawsuit regarding allegations of patent infringement. The Company entered into a settlement agreement with this vendor and paid a total of \$149,500 as part of this settlement, which is included as General and Administrative Expenses.

17. SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported in Wuhan, China, which then spread to other areas around the world including those that the Company does businesses in. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 25, 2020, the date the financial statements were available to be issued.

(Deleted graphics)



AUDITOR'S CONSENT

Larson & Company P.C. hereby consents to the use in the unit Franchise Disclosure Document issued by Zerorez Franchising Systems, Inc. ("Franchisor") on March 29, 2019, as it may be amended, of our reports dated March 18, 2019 and March 28, 2018, relating to the financial statements of Franchisor for the periods ending December 31, 2018, 2017 and 2016.

A handwritten signature in cursive script that reads "Larson & Company P.C.".

Salt Lake City, UT
March 29, 2019

Larson & Company
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Main: (801) 313-1900 | Fax: (801) 313-1912
www.larsco.com

Member of
CPAmerica
Member  Crowe Global

Zerorez Franchising Systems, Inc. and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2018 and 2017



ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Zerorez Franchising Systems, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of **Zerorez Franchising Systems, Inc. and Subsidiary** (a state of Nevada corporation), which comprises the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Zerorez Franchising Systems, Inc. and Subsidiary** as of December 31, 2018 and 2017 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.

Salt Lake City, Utah
March 18, 2019

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
For the Years Ended December 31, 2018 and 2017

	<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets:			
Cash and cash equivalents		\$ 1,153,694	\$ 1,214,361
Accounts receivable, net		74,935	695
Notes receivable, net		1,254,542	1,258,648
Related party notes receivable, due on demand		447,475	475,469
Total current assets		2,930,646	2,949,173
Other assets:			
Intangible asset, net		227,636	310,413
Prepaid expense and other		2,736	255,550
Fixed assets, net		892,886	554,428
Deposits		3,400	-
Total other assets		1,126,658	1,120,391
Total assets		\$ 4,057,304	\$ 4,069,564
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current liabilities:			
Accrued expenses		\$ 318,860	\$ 284,775
Current portion of EAU license fees		29,607	28,920
Current portion of notes payable		45,500	49,000
Current portion of related party notes payable		38,000	263,000
Line of credit		944,756	376,468
Equipment notes payable		46,621	-
Total current liabilities		1,423,344	1,002,163
Other liabilities:			
Royalty and territory pre-payment		464,105	656,849
Deferred salaries		912,963	928,963
EAU license fees, less current portion		55,023	84,631
Related party notes payable		1,054,538	1,097,038
Equipment notes payable, less current portion		241,124	-
Total other liabilities		2,727,753	2,767,481
Total liabilities		4,151,097	3,769,644
Stockholders' equity:			
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 18,363,179 issued and 17,438,179 outstanding		1,836	1,836
Treasury stock, 925,000 shares at cost		(268,575)	(193,700)
Additional paid-in capital		7,665,799	7,665,799
Accumulated deficit		(7,492,853)	(7,174,015)
Total stockholders' equity (deficit)		(93,793)	299,920
Total liabilities and stockholders' equity (deficit)		\$ 4,057,304	\$ 4,069,564

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

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Income
For the Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Franchise fees	\$ 3,486,593	\$ 3,064,826
Initial franchise fees	118,500	39,500
Consumer income	244,440	108
Service income	1,130,320	855,315
Total revenue	4,979,853	3,959,749
Cost of goods sold	95,232	39,275
Gross profit	4,884,621	3,920,474
Operating expenses:		
Payroll	1,322,857	946,267
General and administrative	986,624	641,180
Legal and professional	1,240,128	1,333,107
Advertising	861,687	634,763
Harman Brothers advertising (see note #2)	500,000	-
Depreciation and amortization	204,434	132,514
Total operating expenses	5,115,730	3,687,831
Income (loss) from operations	(231,109)	232,643
Other income and expense:		
Finance charges	(42,828)	(15,038)
Interest expense	(49,041)	(40,553)
Interest and other income	4,140	1,030
Total other income and expense	(87,729)	(54,561)
Net income (loss)	\$ (318,838)	\$ 178,082

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

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
 Consolidated Statements of Changes in Stockholders' Equity
 For the Years Ended December 31, 2018 and 2017

	Treasury Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficit)
	Shares	Value	Shares	Value			
Balance,							
December 31, 2016	-	\$ -	18,363,179	\$ 1,836	\$ 7,685,799	\$ (7,352,097)	\$ 315,538
Treasury stock purchase	775,000	(193,700)	(775,000)	-	-	-	(193,700)
Net income	-	-	-	-	-	178,062	178,062
Balance,							
December 31, 2017	775,000	\$ (193,700)	17,588,179	\$ 1,836	\$ 7,685,799	\$ (7,174,015)	\$ 299,920
Stock redemption	150,000	(74,875)	-	-	-	-	(74,875)
Net income	-	-	-	-	-	(318,838)	(318,838)
Balance,							
December 31, 2018	925,000	\$ (268,575)	17,588,179	\$ 1,836	\$ 7,685,799	\$ (7,492,853)	\$ (93,793)

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

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (318,838)	\$ 178,082
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	204,434	132,514
(Increase) decrease in:		
Accounts receivable	(74,240)	9,357
Deposits	(3,400)	-
Prepaid expense	252,814	(255,550)
Capital lease	-	(119,563)
Increase (decrease) in:		
Accrued expenses	34,085	229,745
EAU license fees	(28,921)	(15,644)
Royalty and territory pre-payment	(192,744)	(245,651)
Deferred salaries	(16,000)	-
Net cash flows from operating activities	(142,810)	(86,710)
Cash flows from investing activities:		
Collection of notes receivable	404,532	473,390
Issuance of notes receivable	(447,307)	(814,024)
Software development	(145,720)	(141,090)
Fixed assets purchased	(314,395)	-
Net cash flows from investing activities	(502,890)	(481,724)
Cash flows from financing activities:		
Issuance of notes payable	351,894	250,000
Repayment on notes payable	(335,149)	(106,734)
Draws on line of credit	635,000	626,468
Payments on line of credit	(66,712)	(250,000)
Net cash flows from financing activities	585,033	519,734
Net change in cash and cash equivalents	(60,667)	(48,700)
Cash and cash equivalents, beginning of year	1,214,361	1,263,061
Cash and cash equivalents, end of year	\$ 1,153,694	\$ 1,214,361
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 49,041	\$ 40,553

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

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

1. ORGANIZATION

Zerorez Franchising Systems, Inc. (ZFS), formerly H2O AquaCare Franchising Systems, Inc., was organized and incorporated in Nevada in February 2001. During 2018, ZFS established one of its franchised outlets, Zerorez Tulsa, LLC.

The consolidated financial statements of ZFS and its wholly-owned subsidiary (the Company) presented herein contain the accounts of both entities. All significant intercompany balances and transactions have been eliminated in consolidation.

ZFS was organized to develop and market a variety of environmentally correct and safe technologies and products nationwide that include 1) a revolutionary and patented method for cleaning and sanitizing carpets, upholstery and hard surfaces without the use of soaps or shampoos and that leaves no residue; 2) Medical device air sanitation technology; and 3) a surface coating technology that provides disinfecting capabilities for up to 6 months after application.

The Company had 51 and 48 franchised outlets with operations during the years ended December 31, 2018 and 2017, respectively. During the year ended December 31, 2018 Zerorez Tulsa, LLC was the only owned and operated franchise outlet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") using the accrual method of accounting. All income is recorded when earned and all expenses are recorded when incurred regardless of when such amounts are received or paid.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid financial instruments with a maturity of less than three months to be cash equivalents.

The Company maintains its cash and cash equivalent balances at financial institutions in various locations which at times may exceed the federally insured limits of \$250,000 set by the Federal Deposit Insurance Corporation. The accounts are held by financial institutions that are well established and highly regarded. The Company has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

Accounts receivable represent royalties due from the Company's franchisees. The Company maintains an allowance for doubtful accounts to reserve for potential uncollectible receivables. The balance in the allowance for doubtful accounts was \$0 as of December 31, 2018 and 2017. The Company's policy for charging off trade receivables against the allowance is to consider write-down of receivables extending beyond 120 days after significant collection efforts have been made or when the financial condition of debtors warrants charge-off. Trade receivables are determined to be past due after 90 days regardless of whether partial payments have been received.

Notes Receivable

Notes receivable relates to franchisee fees or cash advances which are due from various franchisees. When considered necessary, the Company maintains an allowance for doubtful accounts to reserve for potential uncollectible notes receivable. The balance in this account as of December 31, 2018 and 2017 was \$0.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated economic useful lives of the respective assets, as follows:

<u>Assets</u>	<u>Useful Lives</u>
Furniture and fixtures	5 years
Computer and telephone equipment	3 years
Software	10 years

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Asset

The Company's intangible asset, consists of a license agreement which allows the Company to acquire and use certain patented products in its business. The agreement was effective December 30, 2010. See Note 10 for further information.

Intangible assets are initially recognized and measured at fair value in accordance with ASC 805, *Business Combinations*. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates intangible assets with definite lives for impairment when impairment indicators are noted in accordance with ASC 350, *Intangibles – Goodwill and Other*. See Note 10 for details regarding the useful lives of various intangibles acquired as part of the business combination.

Revenue Recognition

The Company's primary sources of revenues are from franchise fees, service fees and product sales. The minimum initial franchise fee is due upon the completion of initial training and commencement of operations and entitles the franchisee to one exclusive operating territory. The Company receives ongoing revenue from royalty fees that are based on percentages of the franchisees' gross receipts or minimum amounts, both of which are due on a monthly basis. The Company also receives service fees which are comprised of two main components, payroll processing and vendor subsidies.

The Company defers recognition of initial franchise fees until the Company has performed substantially all initial services required by the franchise arrangement. Ongoing royalties are recognized when reported to the Company by the franchisee, which is generally in the month following the franchisee sales. Service fees are recognized when the Company has performed the payroll processing service or subsidy payment has been received from the vendor.

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising expenses were **\$1,361,687** and \$634,763 for years ended December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, \$500,000 of total advertising expenses incurred relate to the development of video advertising materials produced by Harman Brothers for their online advertisement campaign that was launched during 2018.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income in the period the new legislation is enacted. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based on evaluation of the facts, circumstances, and information available at the reporting date. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. As of December 31, 2018 and 2017, the Company did not have any uncertain tax positions or interest or penalties related to unrecognized tax benefits. The Company's 2016, 2017, and 2018 tax years remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accrued expenses all approximate fair value due to the short-term maturities of these assets and liabilities.

Recent Accounting Pronouncements

During 2014 and 2015, the FASB issued Accounting Standards Update 2014-09 and 2015-14, Revenue from Contract with Customers, respectively, which revises previous revenue recognition standards to improve guidance on revenue recognition requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance also provides additional disclosure requirements and clarification for revenue recognition for principal vs. agent parties. Subsequent ASUs provided additional clarity to the specifics of terminology used in the core principle. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In November of 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes, which requires all deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This new guidance is effective for fiscal years beginning after December 15, 2017. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In March of 2016, the FASB issued Accounting Standards Update 2016-02, Leases, which requires all leases that have a term of more than 12 months to be recognized as assets and liabilities on the balance sheet at inception. A lessee would recognize a lease liability to make lease payments owed to a lessor (liability) and a benefit for the right to use the leased asset (asset) for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. This new guidance is effective for fiscal years beginning after December 15, 2019. The Company is currently assessing the impact of the amount of leases that will need to be capitalized as a result of this guidance.

3. CONCENTRATION OF CREDIT RISK

The Company's customers may be affected by changing economic conditions. Management believes that its credit review procedures and loss reserves (if any) have adequately provided for usual and customary credit-related losses. During the years ended December 31, 2018 and 2017, the Company recorded \$0 of bad debt expense for such allowances and write-offs from continued operations. Refer to Note 2 for additional details regarding the Company's accounts receivable charge-off policy.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

4. FIXED ASSETS

During the year ended December 31, 2014, the Company began the development of internal software which will be used in future franchise operations. All costs related to the development of the software have been capitalized. Internally developed software costs are depreciated over a period of 10 years from the earlier of, the date the cost was incurred or the date the software was put into service.

Software and fixed assets in use as of December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Software	\$ 852,777	\$ 707,057
Vehicles	314,394	-
Furniture and fixtures	38,975	38,975
Computer and telephone equipment	51,200	51,199
Total software, furniture and equipment	1,257,346	797,231
Less: accumulated depreciation	<u>(364,460)</u>	<u>(242,803)</u>
Net software, furniture and equipment	\$ 892,886	\$ 554,428

Depreciation expense from continued operations related to software and fixed assets totaled **\$121,657** and **\$66,078** for the years ended December 31, 2018 and 2017, respectively.

5. RELATED PARTY TRANSACTIONS

The Company has sold products to and collected royalties from franchisees owned by affiliates or shareholders. Total revenue from these entities for the years ended December 31, 2018 and 2017 was **\$563,245** and **\$612,878**, respectively. Notes receivable from related entities were **\$447,475** and **\$475,469** for the years ended December 31, 2018 and 2017. All notes receivable are interest-free with no pre-determined maturity dates.

Certain note payable balances were with related parties (primarily officers). See Note 8 for further information.

The Company leases office space on a month-to-month basis from a franchisee owned by affiliates or shareholders. Rent expense with related parties was **\$30,000** and **\$24,500** for the years ended December 31, 2018 and 2017.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

6. NOTES PAYABLE

During September 2011, the Company entered into a note payable agreement to settle a disputed balance to a former franchisee in the amount of \$100,000. Specified payments of \$5,000 to \$7,000 are due to the franchisee when new franchisees are received by the Company from each and every new Zerorez franchise that is started after the date of the agreement, until the franchisee has received a total of \$100,000. No interest is currently being accrued on the note. However, a 12% interest per annum will be accrued on any late payments under the agreement. The Company is current with all its payments associated with this note as of December 31, 2018 and 2017. This note is listed in the table below.

	<u>2018</u>	<u>2017</u>
Note payable	\$ 45,500	\$ 49,000
Less current portion	<u>(45,500)</u>	<u>(49,000)</u>
Noncurrent portion of notes payable	<u>\$ -</u>	<u>\$ -</u>

The Company entered into three 6-year financing notes payable for the acquisition of vehicles for its Tulsa operations during 2018. Interest rates on these notes payable range from 6.19% to 6.48% with interest accruing monthly. Fixed monthly payments are made till maturity. Notes payable is collateralized by the respective vehicles. As of December 31, 2018, outstanding balance related to these vehicle notes payable were as follows:

	<u>2018</u>
Vehicle notes payable	<u>\$ 287,745</u>

The Company is current with all of its payments. As of December 31, 2018, the vehicle notes payable will mature as follows:

2019	\$ 46,621
2020	49,696
2021	52,975
2022	56,469
2023	60,195
2024 and thereafter	<u>21,789</u>
Total	<u>\$ 287,745</u>

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

7. RELATED PARTY NOTES PAYABLE

Related party notes payable consist of the following at December 31, 2018 and 2017:

	2018	2017
Notes payable to related parties with no interest. Monthly payments over a 50 month period.	\$ -	\$ 8,000
Notes payable to related parties with no interest. Monthly payments over a 76 month period.	158,700	188,700
Note payable to related parties with no interest. Due at the Company's discretion. Unsecured.	933,838	938,338
Note payable to related party with fixed interest of 5.88%. Due at the Company's discretion. Unsecured.	-	225,000
Total related party notes payable	1,092,538	1,360,038
Less current portion	(38,000)	(263,000)
Noncurrent portion of related party notes payable	\$ 1,054,538	\$ 1,097,038

Effective January 1, 2016, some of the related party notes payable that bore an interest at 10% were subsequently amended to a 0% interest rate.

8. LINE OF CREDIT

The Company has a line of credit with a bank in the amount of \$1,500,000 at an interest rate of 3.75% plus the 3 month LIBOR rate. As of December 31, 2018 and 2017, there was an outstanding balance \$944,756 and \$376,468 on the line of credit, respectively. The line of credit expires on December 27, 2019 and is secured by inventory, equipment, and accounts of the Company.

9. INTANGIBLE ASSET

In November 2010, the Company entered into a License Agreement for the acquisition and use of rights to their patented products, including a specialty fluid used for carpet cleaning purposes. The right to acquire and use these products began on December 30, 2010. This agreement was automatically renewed on December 29, 2015 for an additional five years.

As part of the agreement, the Company paid a total of \$100,000 in cash and assumed a notes payable in the amount of \$126,500. Subsequently, the Company paid \$7,500 on a quarterly basis through October 2016 with the first payment due in October 2011, in relation to the initial lease term. Using the Company's incremental borrowing rate of 14%, the quarterly payments were estimated to have a present value of \$99,506. As a result of this transaction, \$326,006 was recognized on the balance sheet as an intangible asset. This balance is amortized over the expected remaining patent life of 10 years on a straight-line basis.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

9. INTANGIBLE ASSET (Continued)

At the renewal date on October 1, 2016, an additional \$135,342 asset and liability were recorded related to the present value of future payments during the renewal term using the 2016 estimated borrowing rate of 4%. Under this renewal term, the Company will pay \$7,500 on a quarterly basis through October 2021. The incremental asset capitalized in 2016 will also depreciate using the remaining estimated useful life of the patent of 4 years.

Prior to the expiration of this renewal term, the terms of this agreement were amended to change the quarterly payment amount and also include a renewal fee. As a result of this amendment to the renewed lease, the right of use asset was increased by \$119,563 to a total of \$580,911. A liability was recorded to reflect the present value of future payments during the amended renewal term using the 2017 estimated borrowing rate of 4%. Under this amended renewal term, the Company will pay \$8,138 on a quarterly basis through October 2021. The incremental asset capitalized in 2017 will also depreciate using the remaining estimated useful life of the patent of 4 years.

As a result, the related accumulated amortization was **\$353,275** and \$270,498 as of the years ended December 31, 2018 and 2017. Amortization expense related to this asset totaled **\$82,777** and \$66,436 for the years ended December 31, 2018 and 2017. Expected amortization expense related to this asset in future years is as follows:

2019	82,777
2020	82,777
2021	62,082

Total amortization expense \$ 227,636

10. OPERATING LEASE

The Company leases office space on a month-to-month basis. Total rent expense related to these month-to-month leases was **\$44,500** and \$24,500 for the years ended December 31, 2018 and 2017.

The Company entered 3 year operating lease for the Tulsa location commencing on March 1, 2018 and will termination in February 2021. Future lease commitment payments are as follows.

2019	\$	16,800
2020		16,800
2021		2,800
Total	\$	36,400

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

11. INCOME TAXES

Significant temporary differences and their related deferred tax assets as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net operating loss carryforwards	\$ 1,509,941	\$ 1,420,795
Accrued expenses	2,412	865
Deferred salaries	237,370	241,530
Total deferred tax assets	1,749,723	1,663,190
Valuation allowance	(1,749,723)	(1,663,190)
Net deferred tax assets	\$ -	\$ -

As a result of the Company's history of losses, a valuation allowance has been provided for the full amount of the Company's net deferred tax assets. In addition, utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

For the purpose of federal income tax, the Company has tax carryforwards and credits as of December 31, 2018, which expire between 2025 and 2034.

12. TREASURY STOCK

During the year ended December 31, 2017, the Company purchased 775,000 shares of common stock of one of its shareholders. The buyout resulted in a note payable with this shareholder totaling \$193,700. Under the terms of this note, payments of \$2,500 a month will be paid until the note is fully repaid. The stock is held in treasury and recorded using the cost method.

During the year ended December 31, 2018, the Company received 150,000 shares of common stock of one of its shareholders in exchange for a \$74,875 reduction to a Promissory Note. The stock is held in treasury and recorded using the cost method.

13. EMPLOYMENT AGREEMENTS

In June 2008, the Company entered into three Executive Employment Agreements which are set to expire in December 2018. These agreements stipulate the executives' duties, compensation and payments due upon termination. These agreements may be extended for three more years upon written consent of all parties.

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

13. EMPLOYMENT AGREEMENTS (Continued)

According to these agreements, if one of these executives is terminated without cause, the following payments to the executive will be required. First, the executive's full base salary in effect prior to the reason for termination through the date of the executive's termination shall be paid. In addition, an amount equal to executive's base salary payments to which the executive would have been entitled for a period of the longer of either the remainder of the employment term or 24 months from the date of the executive's termination, as if such termination had not occurred. Also, the Company shall maintain the executive's health, dental and life insurance benefits until the earlier of one year or the date on which the executive obtains subsequent insurance coverage. Lastly, at the executive's option, the Company shall purchase the executive's shares of common stock then held at a price equal to 20% above the average selling price of the Company's stock 90 days prior to termination.

Upon death or disability of one of these executives, an amount equal to 12 months of the executive's then base salary shall be paid in addition to any other pension benefits to which the executive would be entitled. As of December 31, 2018 and 2017, two of these executives were still employed by the Company.

14. CONSULTING AGREEMENTS

In 2008, the Company entered into two consulting agreements which are set to expire in December 2021. These agreements stipulate the consultants' duties, compensation, and payments due upon termination.

According to these agreements, if one of these consultants is terminated upon sale of the Company, the Company is required to ensure that the shares of common stock then owned by the consultant are sold at the same price and upon the same terms as that of other shareholders; or the Company must use its best efforts to ensure that the purchasing person and/or entity shall retain the consultant upon the same terms and conditions as contained in the agreement.

During 2013, the Company entered into four new consulting agreements. These agreements stipulate the consultants' duties and compensation terms. These agreements are to continue unless terminated by the mutual agreement of the parties.

For the years ended December 31, 2018 and 2017, the Company recorded \$6,500 and \$20,000 in consulting fees under these agreements.

15. SUBSEQUENT EVENTS

The Company has evaluated events and transactions for potential recognition or disclosure through March 18, 2019, the date the consolidated financial statements were available to be issued.

During 2019 the Company has acquired two new franchises, Zerorez Capital District and Zerorez Sacramento. No costs have been incurred which would require recording in these financial statements.

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Zerorez Franchising Systems, Inc. and Subsidiary

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT**

For the Years Ended December 31, 2017 and 2016



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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Zerorez Franchising Systems, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of **Zerorez Franchising Systems, Inc. and Subsidiary** (a state of Nevada corporation), which comprises the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Zerorez Franchising Systems, Inc. and Subsidiary** as of December 31, 2017 and 2016 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.

A handwritten signature in black ink that reads "Larson & Company P.C.".

Salt Lake City, Utah
March 28, 2018

Larson & Company
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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
For the Years Ended December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 1,214,361	\$ 1,263,061
Accounts receivable, net	695	10,052
Notes receivable, net	1,258,648	1,303,143
Related party notes receivable, due on demand	475,469	90,340
Total current assets	2,949,173	2,666,596
Other assets:		
Intangible asset, net	310,413	257,286
Prepaid expense and other	255,550	-
Fixed assets, net	554,428	479,416
Total other assets	1,120,391	736,702
Total assets	\$ 4,069,564	\$ 3,403,298
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accrued expenses	\$ 284,775	\$ 55,030
Current portion of EAU license fees	28,920	25,207
Current portion of notes payable	49,000	52,500
Current portion of related party notes payable	263,000	24,000
Line of credit	376,468	-
Total current liabilities	1,002,163	156,737
Other liabilities:		
Royalty and territory pre-payment	656,849	902,500
Deferred salaries	928,963	928,963
EAU license fees, less current portion	84,631	103,988
Related party notes payable	1,097,038	995,572
Total other liabilities	2,767,481	2,931,023
Total liabilities	3,769,644	3,087,760
Stockholders' equity:		
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 18,363,179 issued and 17,588,179 outstanding	1,836	1,836
Treasury stock, 775,000 shares at cost	(193,700)	-
Additional paid-in capital	7,665,799	7,665,799
Accumulated deficit	(7,174,015)	(7,352,097)
Total stockholders' equity (deficit)	299,920	315,538
Total liabilities and stockholders' equity (deficit)	\$ 4,069,564	\$ 3,403,298

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

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Consolidated Balance Sheets
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue:		
Franchise fees	\$ 3,064,826	\$ 3,411,943
Initial franchise fees	39,500	132,500
Service income	855,315	570,776
Product sales revenue	108	3,095
Total revenue	3,959,749	4,118,314
Cost of goods sold	39,275	17,330
Gross profit	3,920,474	4,100,984
Operating expenses:		
Payroll	946,267	772,486
General and administrative	639,623	856,778
Legal and professional	1,333,107	978,181
Advertising	634,763	394,116
Depreciation and amortization	132,514	92,701
Insurance	1,557	1,499
Vehicle lease	-	1,552
Total operating expenses	3,687,831	3,097,313
Income from operations	232,643	1,003,671
Other income and expense:		
Finance charges	(15,038)	(374)
Interest expense	(40,553)	(16,087)
Interest income	1,030	503
Total other income and expense	(54,561)	(15,958)
Income from continued operations	178,082	987,713
Discontinued operations:		
Loss from discontinued operations	-	(108,254)
Provision for income taxes	-	(677)
Gain on sale of Sacramento franchise	-	240,707
Total gain from discontinued operations	-	131,776
Net income	\$ 178,082	\$ 1,119,489

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

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2017 and 2016

	Treasury Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficit)
	Shares	Value	Shares	Value			
Balance,							
December 31, 2015	-	\$ -	18,363,179	\$ 1,836	\$ 7,665,799	\$ (8,471,586)	\$ (803,951)
Net income	-	-	-	-	-	1,119,489	1,119,489
Balance,							
December 31, 2016	-	\$ -	18,363,179	\$ 1,836	\$ 7,665,799	\$ (7,352,097)	\$ 315,538
Treasury stock purchase	775,000	(193,700)	(775,000)	-	-	-	(193,700)
Net income	-	-	-	-	-	178,082	178,082
Balance,							
December 31, 2017	775,000	\$ (193,700)	17,588,179	\$ 1,836	\$ 7,665,799	\$ (7,174,015)	\$ 299,920

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

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 178,082	\$ 1,119,489
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	132,514	130,499
Gain on sale of Sacramento franchise	-	(240,707)
Bad debt	-	99,443
(Increase) decrease in:		
Accounts receivable	9,357	(3,138)
Prepaid expense	(255,550)	18,000
Capital lease	(119,563)	(170,429)
Increase (decrease) in:		
Accrued expenses	229,745	(74,917)
EAU license fees	(15,644)	109,670
Royalty and territory pre-payment	(245,651)	(180,000)
Deferred salaries	-	34,946
Net cash flows from operating activities	<u>(86,710)</u>	<u>842,856</u>
Cash flows from investing activities:		
Collection of notes receivable	473,390	284,735
Issuance of notes receivable	(814,024)	(122,189)
Software development	(141,090)	(96,235)
Net cash flows from investing activities	<u>(481,724)</u>	<u>66,311</u>
Cash flows from financing activities:		
Issuance of notes payable	250,000	-
Repayment on notes payable	(106,734)	(280,327)
Draws on line of credit	626,468	-
Payments on line of credit	(250,000)	-
Net cash flows from financing activities	<u>519,734</u>	<u>(280,327)</u>
Net change in cash and cash equivalents	<u>(48,700)</u>	<u>628,840</u>
Cash and cash equivalents, beginning of year	<u>1,263,061</u>	<u>634,221</u>
Cash and cash equivalents, end of year	<u>\$ 1,214,361</u>	<u>\$ 1,263,061</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 40,553	\$ 16,087

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

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

1. ORGANIZATION

Zerorez Franchising Systems, Inc. (ZFS), formerly H2O AquaCare Franchising Systems, Inc., was organized and incorporated in Nevada in February 2001. During 2014, ZFS acquired one of its franchised outlets, Sacramento Zerorez, LLC. This franchised outlet was sold in 2016, refer to Note 3 within the Notes to the Consolidated Financial Statements for additional detail.

The consolidated financial statements of ZFS and its wholly-owned subsidiary (the Company) presented herein contain the accounts of both entities. All significant intercompany balances and transactions have been eliminated in consolidation.

ZFS was organized to develop and market a variety of environmentally correct and safe technologies and products nationwide that include 1) a revolutionary and patented method for cleaning and sanitizing carpets, upholstery and hard surfaces without the use of soaps or shampoos and that leaves no residue; 2) Medical device air sanitation technology; and 3) a surface coating technology that provides disinfecting capabilities for up to 6 months after application.

The Company had 48 and 45 franchised outlets with operations during the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2016 Sacramento Zerorez, LLC was the only owned and operated franchise outlet. In May of 2016, the Sacramento Zerorez, LLC was later sold. During the year ended December 31, 2017, the Company did not own or operate any other franchise outlets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") using the accrual method of accounting. All income is recorded when earned and all expenses are recorded when incurred regardless of when such amounts are received or paid.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid financial instruments with a maturity of less than three months to be cash equivalents.

The Company maintains its cash and cash equivalent balances at financial institutions in various locations which at times may exceed the federally insured limits of \$250,000 set by the Federal Deposit Insurance Corporation. The accounts are held by financial institutions that are well established and highly regarded. The Company has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

Accounts receivable represent royalties due from the Company's franchisees. The Company maintains an allowance for doubtful accounts to reserve for potential uncollectible receivables. The balance in the allowance for doubtful accounts was \$0 as of December 31, 2017 and 2016. The Company's policy for charging off trade receivables against the allowance is to consider write-down of receivables extending beyond 120 days after significant collection efforts have been made or when the financial condition of debtors warrants charge-off. Trade receivables are determined to be past due after 90 days regardless of whether partial payments have been received.

Notes Receivable

Notes receivable relates to franchisee fees or cash advances which are due from various franchisees. When considered necessary, the Company maintains an allowance for doubtful accounts to reserve for potential uncollectible notes receivable. The balance in this account as of December 31, 2017 and 2016 was \$0.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated economic useful lives of the respective assets, as follows:

<u>Assets</u>	<u>Useful Lives</u>
Furniture and fixtures	5 years
Computer and telephone equipment	3 years
Software	10 years

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Asset

The Company's intangible asset, consists of a license agreement which allows the Company to acquire and use certain patented products in its business. The agreement was effective December 30, 2010. See Note 10 for further information.

Intangible assets are initially recognized and measured at fair value in accordance with ASC 805, *Business Combinations*. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates intangible assets with definite lives for impairment when impairment indicators are noted in accordance with ASC 350, *Intangibles – Goodwill and Other*. See Note 10 for details regarding the useful lives of various intangibles acquired as part of the business combination.

Revenue Recognition

The Company's primary sources of revenues are from franchise fees, service fees and product sales. The minimum initial franchise fee is due upon the completion of initial training and commencement of operations and entitles the franchisee to one exclusive operating territory. The Company receives ongoing revenue from royalty fees that are based on percentages of the franchisees' gross receipts or minimum amounts, both of which are due on a monthly basis. The Company also receives service fees which are comprised of two main components, payroll processing and vendor subsidies.

The Company defers recognition of initial franchise fees until the Company has performed substantially all initial services required by the franchise arrangement. Ongoing royalties are recognized when reported to the Company by the franchisee, which is generally in the month following the franchisee sales. Service fees are recognized when the Company has performed the payroll processing service or subsidy payment has been received from the vendor.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were **\$634,763** and **\$394,116** for years ended December 31, 2017 and 2016, respectively.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income in the period the new legislation is enacted. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based on evaluation of the facts, circumstances, and information available at the reporting date. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. As of December 31, 2017 and 2016, the Company did not have any uncertain tax positions or interest or penalties related to unrecognized tax benefits. The Company's 2015, 2016, and 2017 tax years remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accrued expenses all approximate fair value due to the short-term maturities of these assets and liabilities.

Recent Accounting Pronouncements

During 2014 and 2015, the FASB issued Accounting Standards Update 2014-09 and 2015-14, Revenue from Contract with Customers, respectively, which revises previous revenue recognition standards to improve guidance on revenue recognition requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance also provides additional disclosure requirements and clarification for revenue recognition for principal vs. agent parties. Subsequent ASUs provided additional clarity to the specifics of terminology used in the core principal. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In November of 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes, which requires all deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This new guidance is effective for fiscal years beginning after December 15, 2017. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In March of 2016, the FASB issued Accounting Standards Update 2016-02, Leases, which requires all leases that have a term of more than 12 months to be recognized as assets and liabilities on the balance sheet at inception. A lessee would recognize a lease liability to make lease payments owed to a lessor (liability) and a benefit for the right to use the leased asset (asset) for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. This new guidance is effective for fiscal years beginning after December 15, 2019. The Company is currently assessing the impact of the amount of leases that will need to be capitalized as a result of this guidance.

3. DISCONTINUED OPERATIONS

On May 31, 2016, the Company sold 100% of its wholly owned subsidiary, Sacramento Zerorez, LLC, to an unrelated third party. As a result, the Company does not hold any ownership interest nor has any continued involvement in the management of Sacramento Zerorez, LLC as of December 31, 2016.

The total amount of net assets sold consisted of the following items:

	Net Asset Value
Fixed assets	\$ 257,865
Intangible assets	90,969
Other assets and liabilities	5,394
Capital leases	(267,435)
Net asset value	\$ 86,793

The Company recognized a gain of \$240,707 as a result of the transaction.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

3. DISCONTINUED OPERATIONS (Continued)

Loss incurred by the Company from discontinued operations during their ownership for the year ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Revenue:		
Consumer income	\$ -	\$ 194,184
Service income	-	-
Products sales revenue	-	6,156
Total Revenue	<u>-</u>	<u>200,340</u>
Cost of Goods Sold	<u>-</u>	<u>89,377</u>
Gross Profit	-	110,963
Payroll	-	52,710
General and administrative	-	65,698
Legal and professional	-	6,060
Advertising	-	54,586
Depreciation and amortization	-	37,798
Vehicle lease	-	2,365
Total operating expenses	-	219,217
Net income before taxes	-	(108,254)
Provision for income taxes	-	677
Net income	<u>\$ -</u>	<u>\$ (108,931)</u>

4. CONCENTRATION OF CREDIT RISK

The Company's customers may be affected by changing economic conditions. Management believes that its credit review procedures and loss reserves (if any) have adequately provided for usual and customary credit-related losses. During the years ended December 31, 2017 and 2016, the Company recorded \$0 of bad debt expense for such allowances and write-offs from continued operations. Refer to Note 2 for additional details regarding the Company's accounts receivable charge-off policy.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

5. FIXED ASSETS

During the year ended December 31, 2014, the Company began the development of internal software which will be used in future franchise operations. All costs related to the development of the software have been capitalized. Internally developed software costs are depreciated over a period of 10 years from the earlier of, the date the cost was incurred or the date the software was put into service.

Software and fixed assets in use as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Software	\$ 707,057	\$ 565,967
Furniture and fixtures	38,975	38,975
Computer and telephone equipment	51,199	51,199
Total software, furniture and equipment	797,231	656,141
Less: accumulated depreciation	(242,803)	(176,725)
Net software, furniture and equipment	\$ 554,428	\$ 479,416

Depreciation expense from continued operations related to software and fixed assets totaled **\$66,078** and **\$51,641** for the years ended December 31, 2017 and 2016, respectively.

6. RELATED PARTY TRANSACTIONS

The Company has sold products to and collected royalties from franchisees owned by affiliates or shareholders. Total revenue from these entities for the years ended December 31, 2017 and 2016 was **\$612,878** and **\$386,788**, respectively. Notes receivable from related entities were **\$475,469** and **\$90,340** for the years ended December 31, 2017 and 2016. All notes receivable are interest-free with no pre-determined maturity dates.

Certain note payable balances were with related parties (primarily officers). See Note 8 for further information.

The Company leases office space on a month-to-month basis from a franchisee owned by affiliates or shareholders. Rent expense with related parties was **\$24,500** and **\$24,000** for the years ended December 31, 2017 and 2016.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

7. NOTES PAYABLE

During September 2011, the Company entered into a note payable agreement to settle a disputed balance to a former franchisee in the amount of \$100,000. Specified payments of \$5,000 to \$7,000 are due to the franchisee when new franchisees are received by the Company from each and every new Zerorez franchise that is started after the date of the agreement, until the franchisee has received a total of \$100,000. No interest is currently being accrued on the note. However, a 12% interest per annum will be accrued on any late payments under the agreement. The Company is current with all its payments associated with this note as of December 31, 2017 and 2016. This note is listed in the table below.

	<u>2017</u>	<u>2016</u>
Note payable	\$ 49,000	\$ 52,500
Less current portion	<u>(49,000)</u>	<u>(52,500)</u>
Noncurrent portion of notes payable	<u>\$ -</u>	<u>\$ -</u>

8. RELATED PARTY NOTES PAYABLE

Related party notes payable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Notes payable to related parties with no interest. Monthly payments over a 50 month period.	\$ 8,000	\$ 32,000
Notes payable to related parties with no interest. Monthly payments over a 76 month period.	188,700	-
Note payable to related parties with no interest. Due at the Company's discretion. Unsecured.	938,338	787,572
Note payable to related party with fixed interest of 5.88%. Due at the Company's discretion. Unsecured.	<u>225,000</u>	<u>200,000</u>
Total related party notes payable	1,360,038	1,019,572
Less current portion	<u>(263,000)</u>	<u>(24,000)</u>
Noncurrent portion of related party notes payable	<u>\$ 1,097,038</u>	<u>\$ 995,572</u>

Effective January 1, 2016, some of the related party notes payable that bore an interest at 10% were subsequently amended to a 0% interest rate.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

9. LINE OF CREDIT

The Company has a line of credit with a bank in the amount of \$1,500,000 at an interest rate of 3.75% plus the 3 month LIBOR rate. As of December 31, 2017, there was an outstanding balance \$376,468 on the line of credit. The line of credit expires on September 27, 2018 and is secured by inventory, equipment, and accounts of the Company.

10. INTANGIBLE ASSET

In November 2010, the Company entered into a License Agreement for the acquisition and use of rights to their patented products, including a specialty fluid used for carpet cleaning purposes. The right to acquire and use these products began on December 30, 2010. This agreement was automatically renewed on December 29, 2015 for an additional five years.

As part of the agreement, the Company paid a total of \$100,000 in cash and assumed a notes payable in the amount of \$126,500. Subsequently, the Company paid \$7,500 on a quarterly basis through October 2016 with the first payment due in October 2011, in relation to the initial lease term. Using the Company's incremental borrowing rate of 14%, the quarterly payments were estimated to have a present value of \$99,506. As a result of this transaction, \$326,006 was recognized on the balance sheet as an intangible asset. This balance is amortized over the expected remaining patent life of 10 years on a straight-line basis.

At the renewal date on October 1, 2016, an additional \$135,342 asset and liability were recorded related to the present value of future payments during the renewal term using the 2016 estimated borrowing rate of 4%. Under this renewal term, the Company will pay \$7,500 on a quarterly basis through October 2021. The incremental asset capitalized in 2016 will also depreciate using the remaining estimated useful life of the patent of 4 years.

Prior to the expiration of this renewal term, the terms of this agreement were amended to change the quarterly payment amount and also include a renewal fee. As a result of this amendment to the renewed lease, the right of use asset was increased by \$119,563 to a total of \$580,911. A liability was recorded to reflect the present value of future payments during the amended renewal term using the 2017 estimated borrowing rate of 4%. Under this amended renewal term, the Company will pay \$8,138 on a quarterly basis through October 2021. The incremental asset capitalized in 2017 will also depreciate using the remaining estimated useful life of the patent of 4 years.

As a result, the related accumulated amortization was **\$270,498** and **\$204,062** as of the years ended December 31, 2017 and 2016. Amortization expense related to this asset totaled **\$66,436** and **\$41,059** for the years ended December 31, 2017 and 2016. Expected amortization expense related to this asset in future years is as follows:

2018	82,777
2019	82,777
2020	82,777
2021	62,082
Total amortization expense	\$ 310,413

(Deleted graphics)

ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

11. OPERATING LEASE

The Company leases office space on a month-to-month basis. Total rent expense related to these month-to-month leases was **\$24,500** and \$24,000 for the years ended December 31, 2017 and 2016.

12. INCOME TAXES

Significant temporary differences and their related deferred tax assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Net operating loss carryforwards	\$ 1,420,795	\$ 2,201,129
Allowance for bad debts	-	-
Accrued expenses	865	1,175
Deferred salaries	241,530	362,296
Deferred tax assets	1,663,190	2,564,600
Valuation allowance	(1,663,190)	(2,564,600)
Net deferred tax assets	\$ -	\$ -

As a result of the Company's history of losses, a valuation allowance has been provided for the full amount of the Company's net deferred tax assets. In addition, utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

For the purpose of federal income tax, the Company has tax carryforwards and credits as of December 31, 2017, which expire between 2025 and 2034.

13. TREASURY STOCK

During the year ended December 31, 2017, the Company purchased 775,000 shares of common stock of one of its shareholders. The buyout resulted in a note payable with this shareholder totaling \$193,700. Under the terms of this note, payments of \$2,500 a month will be paid until the note is fully repaid. The stock is held in treasury and recorded using the cost method.

14. EMPLOYMENT AGREEMENTS

In June 2008, the Company entered into three Executive Employment Agreements which are set to expire in December 2018. These agreements stipulate the executives' duties, compensation and payments due upon termination. These agreements may be extended for three more years upon written consent of all parties.

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ZEROREZ FRANCHISING SYSTEMS, INC. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

14. EMPLOYMENT AGREEMENTS (Continued)

According to these agreements, if one of these executives is terminated without cause, the following payments to the executive will be required. First, the executive's full base salary in effect prior to the reason for termination through the date of the executive's termination shall be paid. In addition, an amount equal to executive's base salary payments to which the executive would have been entitled for a period of the longer of either the remainder of the employment term or 24 months from the date of the executive's termination, as if such termination had not occurred. Also, the Company shall maintain the executive's health, dental and life insurance benefits until the earlier of one year or the date on which the executive obtains subsequent insurance coverage. Lastly, at the executive's option, the Company shall purchase the executive's shares of common stock then held at a price equal to 20% above the average selling price of the Company's stock 90 days prior to termination.

Upon death or disability of one of these executives, an amount equal to 12 months of the executive's then base salary shall be paid in addition to any other pension benefits to which the executive would be entitled. As of December 31, 2017 and 2016, all three of these executives were still employed by the Company.

15. CONSULTING AGREEMENTS

In 2008, the Company entered into two consulting agreements which expired in 2015. These agreements have been extended for an additional three years and are set to expire in December 2018. These agreements stipulate the consultants' duties, compensation, and payments due upon termination.

According to these agreements, if one of these consultants is terminated upon sale of the Company, the Company is required to ensure that the shares of common stock then owned by the consultant are sold at the same price and upon the same terms as that of other shareholders; or the Company must use its best efforts to ensure that the purchasing person and/or entity shall retain the consultant upon the same terms and conditions as contained in the agreement.

During 2013, the Company entered into four new consulting agreements. These agreements stipulate the consultants' duties and compensation terms. These agreements are to continue unless terminated by the mutual agreement of the parties.

For the years ended December 31, 2017 and 2016, the Company recorded **\$20,000** and **\$55,624** in consulting fees under these agreements.

16. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 28, 2018, the date the consolidated financial statements were available to be issued.

EXHIBIT D

CURRENT FRANCHISEE CONTACT INFORMATION

ZEROREZ FRANCHISEE LOCATIONS			
NAME	ADDRESS	STATE	TELEPHONE NUMBER
Zerorez of Huntsville ZeroHolding, LLC	2511 Hall Ave. Huntsville, AL 35805	Alabama	256-430-4040
Zerorez of Phoenix Somerset Enterprises, LLC	1431 W Harvard Ave. Gilbert, AZ 85223	Arizona	480-507-2419
Zerorez of Tucson Zerorez of Tucson, LLC	1870 W Prince Road, Bldg. E, #60 Tucson, AZ 85705	Arizona	520-441-2441
Zerorez Los Angeles ZSC, LLC	17815 Sky Park Cir, Ste. AC Irvine, CA 92614	California	949-387-2222
Zerorez San Diego Aqua Care of San Diego, Inc.	14055 Kirkham Way #103 Poway, CA 92064	California	858-486-4100
Zerorez of Greater Sacramento Easy Street Sacramento, LLC	8173 Belvedere Ave, Ste. B Sacramento, CA 95826	California	916-454-2103
Zerorez Bay Area Bay Area Zerorez, Inc.	1775 Monterey Rd. Ste. 44B San Jose, CA 95112	California	877-321-0739
Zerorez Sonoma Zerorez of the North Bay, Inc.	2985 Dutton Ave. Ste. 10 Santa Rosa, CA 95407	California	707-585-2677
Zerorez Denver Zerorez Denver Inc.	2635 South Santa Fe Dr., #3A Denver, CO 80223	Colorado	303-471-5150
Zerorez Northern Colorado Zerorez Northern Colorado, LLC	1355 South Garfield Ave. Loveland, CO 80537	Colorado	970-613-9376
Zerorez South West Florida Zerorez South West Florida, LLC*	<u>5701 County Lakes Dr., Unit 8</u> Fort Meyers, FL 339052663 Bridle Oak Drive South Jordan, UT 84095	Florida	<u>239-932-9376</u>
Zerorez Jacksonville First Coast Zerorez, LLC	225 Sampson Way St. Augustine, FL 32092	Florida	904-287-5727

ZEROREZ FRANCHISEE LOCATIONS			
NAME	ADDRESS	STATE	TELEPHONE NUMBER
Zerorez Orlando First Coast Zerorez, LLC[±]	225 Sampson Way 602 S. Lake Pleasant Rd. St. Augustine Apopka, FL 3209232703	Florida	904407-287232- 57279188
Zerorez of Tampa Zerorez of Tampa, Inc.	5817 N. 56 th St. Tampa, FL 33610	Florida	813-345-4178
<u>Zerorez Volusia County Daytona</u>	<u>1934 W. Park Ave., Ste. L</u> <u>Edgewater, FL 32132</u>	<u>Florida</u>	<u>386-222-0260</u>
Zerorez of Savannah SAGZ, LLC	3911 Old Louisville Rd., Unit 110 Garden City, GA 31408	Georgia	912-450-6399
Zerorez Atlanta Zerorez of Atlanta One, Inc.	6145 Northbelt Pkwy. NW, Ste. A Norcross, GA 30071	Georgia	770-242-1313
Zerorez Boise Zerorez Boise, LLC	2807 S. Cole Rd. Boise, ID 83709	Idaho	208-383-1000
<u>Zerorez Idaho Falls</u>	<u>1626 Hollipark Dr.</u> <u>Idaho Falls, ID 83401</u>	<u>Idaho</u>	<u>208-383-1000</u>
Zerorez Indianapolis Conormara Zerorez Central Indiana, LLC	8132 Woodland Dr. Indianapolis, IN 46278	Indiana	317-388-5141
Zerorez Des Moines Zerorez Iowa, LLC	1975 NW 92nd Court, Ste. 1 Clive, IA 50325	Iowa	515- 537 327-9000
Zerorez of Cedar Rapids Zerorez Iowa, LLC	1975 NW 92nd Court, Ste. 1 Clive, IA 50325	Iowa	515-537-9000
Zerorez Louisville	2028 Kentucky 53, <u>Ste. 3327</u> La Grange, KY 40031	Kentucky	502-909-3990
Zerorez Grand Rapids Greener Cleaners, LLC[±]	3530 Roger B Chaffee Memorial Blvd. SE Grand Rapids Wyoming, MI 49548	Michigan	616-420-4949
Zerorez Minneapolis HSK LLC	5340 5300 W. 23 rd St. Street, #100 St. Louis Park, MN 55416	Minnesota	651 952-779937- 88886739
Zerorez of St. Louis Mostly LLC	3801 McKelvey Rd., Ste. 206 Bridgeton, MO 63044	Missouri	314-474-2020

ZEROREZ FRANCHISEE LOCATIONS			
NAME	ADDRESS	STATE	TELEPHONE NUMBER
Zerorez of Kansas City Zerorez Kansas City, LLC	520 W. 103rd St., Ste. 198 Kansas City, MO 64114	Missouri	816-425-3655
Zerorez of Omaha OM Group, LLC	10533 Chandler Rd., Ste. 105 Omaha, NE 68128	Nebraska	402-933-1988
Zerorez Las Vegas Zerorez Las Vegas, LLC	7540 Dean Martin Dr., Ste. 503 Las Vegas, NV 89139	Nevada	702-567-0016
Zerorez Capital District Choice Work, LLC	388 Old Niskayuna Rd. Latham, NY 12110	New York	518-300-4445
Zerorez Long Island Steam Away, LLC	8 Jeffery Road Oakdale, NY 11769	New York	631-567-1848
Zerorez Asheville	30 Westgate Pkwy., #338 Asheville, NC 28806	North Carolina	828-209-7000
Zerorez Charlotte Chaz LLC	8100 Arrowridge Blvd., Ste. F Charlotte, NC 28234	North Carolina	704-509-4488
Zerorez Raleigh Zerorez NC, LLC	5100 Unicorn Dr., Ste. 102 Wake Forest, NC 27587	North Carolina	919-995-0000
Zerorez Fargo Zerorez Fargo ND, LLC*	47421 Delight Drive Frazee, MN 56544	North Dakota	<u>701-566-8827</u>
Zerorez Cincinnati Zerorez of Cincinnati, Inc.	11711 Princeton Pike, Ste. 341-140 Cincinnati, OH 45246	Ohio	513-845-0151
Zerorez Oklahoma City ZeroHolding, LLC	1209 SE 44 th , Ste. 1 Oklahoma City, OK 73129	Oklahoma	405-606-7030
Zerorez of Portland	2168 SE Steele St. Portland, OR 97202	Oregon	503-946-6955
Zerorez Eugene Central Oregon Zerorez Central Oregon, LLC	6924 Glacier Dr. Springfield, OR 97478	Oregon	541-988-9376
Zerorez of Pittsburgh ZOPB, LLC	453 Lowries Run Rd. Pittsburgh, PA 15237	Pennsylvania	412-701-1188
Zerorez Charleston ZR Charleston, LLC	450 Deanna Ln., Ste. C Charleston, SC 29492	South Carolina	843-352-7545
Zerorez Greenville Zerorez of Greenville, LLC	142 W. Phillips Rd. Greer, SC 29650	South Carolina	864-558-7300

ZEROREZ FRANCHISEE LOCATIONS			
NAME	ADDRESS	STATE	TELEPHONE NUMBER
Zerorez of Columbia Zerorez of Columbia, LLC	100 Old Cherokee Rd., Ste. 336 Lexington, SC 29072	South Carolina	803-262-4020
<u>Zerorez Knoxville</u>	<u>5923 Kingston Pike, Ste. 201</u> <u>Knoxville, TN 37919</u>	<u>Tennessee</u>	<u>865-816-5250</u>
Zerorez Nashville ZeroHolding, LLC	475 Metroplex Dr., Ste. 104 Nashville, TN 37211	Tennessee	615-535-9376
Zerorez of Austin OWO, LLC	1011 S. Heatherwilde Blvd., Ste. 230 Pflugerville, TX 78660	Texas	512-290-9990
Zerorez Houston Zerorez – Houston, LLC*	5903 Sandypine Court <u>6529 Cunningham Rd., Ste.</u> <u>2205</u> <u>SpringHouston, TX</u> <u>7737977041</u>	Texas	<u>281-305-4804</u>
Zerorez Dallas Hospitality Holdings, Inc.	1000 W. Crosby Rd., Ste. 124 Carrollton, TX 75006	Texas	214-372-5326
Zerorez Davis Weber Zerorez of Davis Weber, LLC	803 N. 1250 W., Ste. 5 Centerville, UT 84014	Utah	801-295-7400
Zerorez Salt Lake SP Ventures, LLC	<u>1809 West State Street,</u> <u>Building B-2</u> <u>Pleasant Grove, Utah 42577</u> <u>S. 265 W., #3A</u> <u>Draper, UT 84020</u>	Utah	801-288-9376
Zerorez Cache Valley Cache Valley, LLC	40235355 W. 80016800 N., Ste. 409 <u>LoganGarland, UT</u> <u>8432184312</u>	Utah	435-554-1050
Zerorez of St. George Ventures in Partnership, LLC	645222 N. 3050 E., Ste. B9Donalee Dr. <u>St. George, UT 8479084770</u>	Utah	435-215-1175
Zerorez of Greater Fredericksburg and Prince William County Easy Street, LLC	44 Mine Rd., Ste. 2 #205 Stafford, VA 22554	Virginia	540-656-3350
Zerorez of DC Metro Ashburn Service Associates, LLC	23590 Overland Dr., Ste. 140 Sterling, VA 20166	Virginia	703-382-1221

ZEROREZ FRANCHISEE LOCATIONS			
NAME	ADDRESS	STATE	TELEPHONE NUMBER
Zerorez Puget Sound Puget Sound Investment Capital Inc.	11807 NE 112th St. Kirkland, WA 98033 <u>98034</u>	Washington	425-453-9376
Zerorez Tri-Cities T450N, LLC	1355 Dakota Ave. Richland, WA 99352	Washington	509-582-9000
Zerorez Yakima Zerorez Yakima, LLC*	734 Laguna Cove Saratoga Springs, UT 84045	Washington	
Zerorez of Spokane Zerorez Spokane, LLC	13110 E. Indiana Ave., Ste. A Spokane <u>Valley</u> , WA 99126	Washington	509-922-5326
Zerorez Madison Zerorez Madison, LLC	1155 Clarity St., #205 Verona, WI 53593	Wisconsin	608-848-9000

* ~~These~~The following franchisees signed a franchise agreement in ~~2018~~2019 but were not open for business as of December 31, ~~2018~~2019:

<u>ZEROREZ UNOPENED FRANCHISEE LOCATIONS</u>			
<u>NAME</u>	<u>ADDRESS</u>	<u>STATE</u>	<u>TELEPHONE NUMBER</u>
<u>Zerorez New Mexico</u>	<u>10000 Erlitz Dr. NW Albuquerque, NM 87114</u>	<u>New Mexico</u>	<u>801-870-8818</u>
<u>Zerorez Toledo</u>	<u>24301 Merriman Rd. New Boston, MI 48164</u>	<u>Ohio</u>	<u>269-720-1077</u>

The following ~~One~~ franchisee ceased operations during ~~2018~~temporarily during 2019 but operates another location and remains in the Zerorez system.

NAME	CITY, STATE	TELEPHONE NUMBER
Zerorez of Cedar Rapids Viability LLC Gregg Thompson	Holyoke, Massachusetts Clive, IA	(413) 533- 9370515-327- 9000

The following franchisee transferred ownership of their franchise to a ~~new entity~~us during ~~2018~~2019 and is no longer in the Zerorez franchise system:

NAME	ADDRESSCITY, STATE	TELEPHONE NUMBER
Clark Kent Choice Work, LLC Scott Vigue	Tampa Latham, FL NY	(813) 918- 2856518-300- 4455

EXHIBIT E
STATE-SPECIFIC ADDENDA

**FLORIDA, INDIANA, MISSOURI, OKLAHOMA, TENNESSEE AND WASHINGTON DC
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

Item 2:

Franchises in Florida, Indiana, Missouri, Oklahoma, Tennessee and Washington DC may operate in the territory of a Zerorez Regional Developer. If your franchise is located in one of these territories, the respective regional developer may provide certain services to your franchise.

REGIONAL DEVELOPER: David Bennion

David is the Zerorez regional developer in Jacksonville, Florida. David has been the owner and president of First Coast Zerorez, LLC, a franchisee in Jacksonville, Florida since 2004.

REGIONAL DEVELOPER: Ray Kennedy

Ray is the Zerorez regional developer in Indiana. Ray has been the owner and manager of Zerorez Indianapolis since July 2013. Ray has also been the owner and chief executive officer of Conormara LLC, an investment company managing both active and passive investments since 2006.

REGIONAL DEVELOPER: Steven Phelps

Steven is the Zerorez regional developer in Missouri. Steven has been the owner and president of Zerorez Kansas City since May 2014. From September 2013 to March 2014, Steven was the manager responsible for financial and business development of a heavy equipment division of Roadbuilders. From March 2009 to August 2013, Steven was the business manager overseeing HR, risk management, finance, accounting and business development for Phelps Resources Inc. dba Pickens Sandblasting & Painting.

REGIONAL DEVELOPER: Phillip Miles

Phillip is the Zerorez regional developer in Oklahoma and Tennessee. Phillip is the managing member of Zeroholding, LLC, which operates the Nashville, Tennessee, Huntsville, Alabama, and Oklahoma City, Oklahoma Zerorez franchises. Phillip began operating the Nashville franchise in October 2013, the Huntsville franchise in May 2014 and the Oklahoma City franchise in July 2014. Phillip has also been the owner and manager of Eclipse Advisors, LLC, a CPA consultancy firm, since 2006.

REGIONAL DEVELOPER: Luis Padilla

Luis is a Zerorez regional developer in Washington DC, Maryland and Virginia. Luis has been the general manager of Ashburn Service Associates, LLC, which operates a Zerorez franchise in Maryland, Virginia and Washington DC, since June 2015. Prior to becoming a Zerorez franchisee, Luis was a Project Manager in McLean, Virginia from November 2014 to June 2015. Luis was a Senior Business Analyst for FedBid in Vienna, Virginia from March 2014 to October 2014. Luis was also a Senior Business Analyst for Assurety Consulting in Herndon, Virginia from June 2013 to March 2014. Luis was a Product Manager for Matt Martin Real Estate Management in Arlington, Virginia from August 2012 to June 2013. Luis was a Business Systems Analyst for CapTech in Richmond, Virginia from November 2010 to August 2012.

Item 3:

No litigation is required to be disclosed in this Item with relation to the Zerorez Regional Developers.

Item 4:

No bankruptcy is required to be disclosed in this item with relation to the Zerorez Regional Developers.

**CALIFORNIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

NOTE: THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT.

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. No person identified 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 such association or exchange.
2. Payment of the franchise fee and territory fee identified in Item 5 of the Disclosure Document are deferred until we have met our pre-opening obligations and once you are open for business.
3. California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination, transfer, or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
4. 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.*).
5. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California Law.
6. The Franchise Agreement requires dispute resolution by arbitration in Salt Lake County, Utah, with the costs being borne by the non-prevailing party. You are encouraged to consult private legal counsel to determine the applicability of California and federal laws to any provisions of a franchise agreement restricting venue to a forum outside the State of California.
7. The Franchise Agreement requires application of the laws of the State of Utah. This provision may not be enforceable under California law.
8. You must sign a general release if you transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).
9. The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
10. THE CALIFORNIA INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT. SECTION 31125 OF THE FRANCHISE INVESTMENT LAW REQUIRES US TO GIVE TO YOU A DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER OF CORPORATIONS BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE AGREEMENT.

11. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT www.dbo.ca.gov.

**HAWAII ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. THIS FRANCHISE HAS BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.
2. THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE,, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.
3. THIS DISCLOSURE DOCUMENT 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.
4. THE FOLLOWING RISK FACTOR IS ADDED TO THE DISCLOSURE DOCUMENT AS A SUPPLEMENT TO THE STATE COVER PAGE: THE FRANCHISOR'S STOCKHOLDER'S EQUITY AS OF DECEMBER 31, 2018 WAS \$(93,793).
5. PAYMENT OF THE FRANCHISE FEE AND TERRITORY FEE IDENTIFIED IN ITEM 5 OF THE DISCLOSURE DOCUMENT ARE DEFERRED UNTIL WE HAVE MET OUR PRE-OPENING OBLIGATIONS AND UNTIL YOU ARE OPEN FOR BUSINESS.

HAWAII ADDENDUM TO THE FRANCHISE AGREEMENT
ZEROREZ FRANCHISING SYSTEMS, INC.

This Addendum ("**Addendum**") is effective as of _____, 20____ to that certain Franchise Agreement dated _____, 20____ ("**Agreement**") by and between Zerorez Franchising Systems, Inc., a Nevada corporation ("**Zerorez**"), and _____ ("**Franchisee**"). Notwithstanding any provisions in the Agreement, Zerorez and Franchisee hereby agree to the following:

1. The following is added to Section 2.1 of the Agreement:

Payment of the Initial Franchise Fee is deferred until we have met our pre-opening obligations and until you are open for business.

IN WITNESS WHEREOF, the Parties have executed this Addendum to be effective as of the date set forth below:

Date: _____

ZEROREZ:

Zerorez Franchising Systems, Inc.

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

Name of Franchisee: _____

By: _____

Print Name: _____

Title: _____

**ILLINOIS ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

Illinois law governs the agreements between the parties to this franchise.

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 is void.

The following is added to **Item 5**:

“Due to our financial condition, the Illinois Attorney General’s Office has required, and we have agreed, to defer collection of all the initial fees and payments as described in Item 5 of the Disclosure Document until we have completed all of our pre-opening obligations to you and you are open for business.”

The following paragraphs are inserted at the end of **Item 17**:

“The conditions under which your franchise can be terminated and your rights upon non-renewal may be affected by Illinois law, 815 ILCS 705/19 and 705/20.”

“Provisions regarding jurisdiction and venue and choice of law are affected by Illinois law, 815 ILCS §§ 705/4 and 705/41, respectively.”

**ILLINOIS ADDENDUM TO THE FRANCHISE AGREEMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

This Addendum (“**Addendum**”) is effective as of _____, 20__ to that certain Franchise Agreement dated _____, 20__ (“**Agreement**”) by and between Zerorez Franchising Systems, Inc. a Nevada corporation (“**Zerorez**”), and _____ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Zerorez and Franchisee hereby agree to the following:

1. **Due Date for Franchise Fee.** Due to Franchisor’s financial condition, the Illinois Attorney General’s Office has required and Franchisor has agreed, to defer collection of all initial fees and payments as described in Section 3.1.1 of the Agreement until Zerorez has completed all of its pre-opening obligations to Franchisee and Franchisee is open for business.
2. Illinois law governs the agreements between the parties to this franchise.
3. Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a franchise agreement may provide for arbitration outside Illinois.
4. 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.
5. Franchisee’s rights upon termination and non-renewal of the Agreement are set forth in Section 19 and 20 of the Illinois Franchise Disclosure Act.

IN WITNESS WHEREOF, the Parties have executed this Addendum to be effective as of the date set forth below:

Date: _____

ZEROREZ:

Zerorez Franchising Systems, Inc.

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

Name of Franchisee: _____

By: _____

Print Name: _____

Title: _____

**MARYLAND ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

Item 2:

Franchises in Washington DC, Maryland and Virginia may operate in the territory of a Zerorez Regional Developer. If your franchise is located in one of these territories, the respective regional developer may provide certain services to your franchise.

REGIONAL DEVELOPER: Luis Padilla

Luis is a Zerorez regional developer in Washington DC, Maryland and Virginia. Luis has been the general manager of Ashburn Service Associates, LLC, which operates a Zerorez franchise in Maryland, Virginia and Washington DC, since June 2015. Prior to becoming a Zerorez franchisee, Luis was a Project Manager in McLean, Virginia from November 2014 to June 2015. Luis was a Senior Business Analyst for FedBid in Vienna, Virginia from March 2014 to October 2014. Luis was also a Senior Business Analyst for Assurety Consulting in Herndon, Virginia from June 2013 to March 2014. Luis was a Product Manager for Matt Martin Real Estate Management in Arlington, Virginia from August 2012 to June 2013. Luis was a Business Systems Analyst for CapTech in Richmond, Virginia from November 2010 to August 2012.

Item 5:

Payment of the franchise fee and territory fee identified in Item 5 of the Disclosure Document are deferred until we have met our pre-opening obligations and until you are open for business.

Item 7:

The Franchise Agreement provides for termination upon bankruptcy. These provisions may not be enforceable under federal bankruptcy law (11 U.S.C. Sec. 101 *et seq.*).

The general release required as a condition of renewal, relocation, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of your franchise or Regional Developer Business.

**MARYLAND ADDENDUM TO THE FRANCHISE AGREEMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

This Addendum (“**Addendum**”) is effective as of _____, 20__ to that certain Franchise Agreement dated _____, 20__ (“**Agreement**”) by and between Zerorez Franchising Systems, Inc., a Nevada corporation (“**Zerorez**”), and _____ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Zerorez and Franchisee hereby agree to the following:

2. The following is added to Section 2.1 of the Agreement:

Payment of the Initial Franchise Fee is deferred until we have met our pre-opening obligations and until you are open for business.

3. Section 12.3 of the Agreement is amended to add the following:

Any release required as a condition of renewal, relocation, transfer, assignment or sale will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

4. Section 15.10 of the Agreement is amended to add the following:

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of your franchise business.

Notwithstanding anything to the contrary in this Agreement, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

5. Section 15.11(g) of the Agreement is amended to add the following:

This Agreement provides that disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.

IN WITNESS WHEREOF, the Parties have executed this Addendum to be effective as of the date set forth below:

Date: _____

ZEROREZ:

Zerorez Franchising Systems, Inc.

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

Name of Franchisee: _____

By: _____

Print Name: _____

Title: _____

**MINNESOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C, or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
2. With respect to the franchises governed by Minnesota law, the franchisor will comply with Minnesota Statute Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.
3. The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name. Minnesota considers it unfair not to protect the franchisee's right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g).
4. You must sign a general release if you transfer your franchise. Minnesota Rules 2860.4400(D) voids this general release.
5. With respect to the franchises governed by Minnesota law, any limitations of claims must comply with Minnesota Statutes Section 80C.17, Subd. 5.

**NEW YORK ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this disclosure document, the following additional paragraphs are added:

1. Except as disclosed in **Item 3** of the disclosure document, neither we, our predecessors, affiliates or any person identified in **Item 2** of this disclosure document:
 - A. Has any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) pending against it or him 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.
 - B. Has been convicted of a felony or pleaded nolo contendere to a felony charge or within the ten (10) year period immediately preceding the application for registration, 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.
 - C. Is subject to any currently effective injunctive or restrictive order or decree relating to franchises or under any federal, state, or Canadian franchise, securities, antitrust, trade regulation, trade practice law, or any national securities association or national securities exchange (as defined in the Securities and Exchange Act of 1934) suspending or expelling such person from membership in such association or exchange as a result of a concluded or pending action or proceeding brought by a public agency.
2. Except as disclosed in **Item 4** of the disclosure document, during the fifteen (15) year period immediately preceding the date of this disclosure document, neither we, our predecessors, affiliates or any person identified in **Item 2** of this disclosure document has been adjudged bankrupt or reorganized due to insolvency or been a principal officer of any company or a general partner in any partnership at or within 1 year of the time that such company or partnership was adjudged bankrupt or reorganized due to insolvency or is otherwise subject to any pending bankruptcy or reorganization proceeding.
3. You will not be required to indemnify us for any claims arising out of a breach of the Franchise Agreement by us or other civil wrongs committed by us.
4. We will not make any changes to the Operations Manual which would impose an unreasonable economic burden on you or unreasonably increase your obligations under the Franchise Agreement.
5. We will not assign any of our rights under the Franchise Agreement except to an assignee who, in our good faith judgment, is willing and able to assume our obligations under the Franchise Agreement.
6. Any release executed in connection with the Franchise Agreement is subject to the proviso that all rights enjoyed by you and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the

regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law of New York State be satisfied.

7. You may terminate the Franchise Agreement and any ancillary agreements upon any other grounds available by law.
8. The summary in **Item 17.w.**, Choice of Law, is amended to state the following:

Utah law applies unless governed by applicable federal law. The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon Franchisee by the General Business Law of the State of New York.

**NORTH DAKOTA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

As a supplement to the information disclosed in this Disclosure Document, the following additional paragraphs are added:

1. All covenants restricting competition are subject to NDCC Section 9-08-06.
2. The franchise agreement provides that the parties must agree to arbitrate disputes in the State of Utah. These provisions may not be enforceable under North Dakota Law.
3. The franchise agreement requires you to consent to jurisdiction in the State of Utah. This provision may not be enforceable under North Dakota law.
4. The franchise agreement requires application of the laws of the State of Utah. This provision may not be enforceable under North Dakota law.
5. The franchise agreement requires you to consent to a waiver of exemplary and punitive damages. This provision may not be enforceable under North Dakota law.
6. A general release may be required if you renew or transfer your franchise. No such release relieves us of any liability under the North Dakota Franchise Investment Law.
7. The franchise agreement requires that you consent to a limitation of claims. The statute of limitations under North Dakota law applies.
8. The prevailing party in any enforcement action under the franchise agreement is entitled to recover all costs and expenses including attorney's fees.

**VIRGINIA ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

Additional Disclosures.

The following is added to Item 2:

Franchises in Washington DC, Maryland and Virginia may operate in the territory of a Zerorez Regional Developer. If your franchise is located in one of these territories, the respective regional developer may provide certain services to your franchise.

REGIONAL DEVELOPER: Luis Padilla

Luis is a Zerorez regional developer in Washington DC, Maryland and Virginia. Luis has been the general manager of Ashburn Service Associates, LLC, which operates a Zerorez franchise in Maryland, Virginia and Washington DC, since June 2015. Prior to becoming a Zerorez franchisee, Luis was a Project Manager in McLean, Virginia from November 2014 to June 2015. Luis was a Senior Business Analyst for FedBid in Vienna, Virginia from March 2014 to October 2014. Luis was also a Senior Business Analyst for Assurety Consulting in Herndon, Virginia from June 2013 to March 2014. Luis was a Product Manager for Matt Martin Real Estate Management in Arlington, Virginia from August 2012 to June 2013. Luis was a Business Systems Analyst for CapTech in Richmond, Virginia from November 2010 to August 2012.

The following is added to Item 3:

No litigation is required to be disclosed in this Item with relation to the Zerorez Regional Developers.

The following is added to Item 4:

No bankruptcy is required to be disclosed in this item with relation to the Zerorez Regional Developers.

The following is added to Item 5:

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement.

The following statement is added to Item 17.h.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement 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.

**VIRGINIA ADDENDUM TO THE FRANCHISE AGREEMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

This Addendum ("**Addendum**") is effective as of _____, 20__ to that certain Franchise Agreement dated _____, 20__ ("**Agreement**") by and between Zerorez Franchising Systems, Inc., a Nevada corporation ("**Zerorez**"), and _____ ("**Franchisee**"). Notwithstanding any provisions in the Agreement, Zerorez and Franchisee hereby agree to the following:

1. The following is added to Section 2.1 of the Agreement:

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the Initial Franchise Fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement.

IN WITNESS WHEREOF, the Parties have executed this Addendum to be effective as of the date set forth below:

Date: _____

ZEROREZ:

Zerorez Franchising Systems, Inc.

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

Name of Franchisee: _____

By: _____

Print Name: _____

Title: _____

**WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.
2. A release or waiver of rights executed by you 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, or rights or remedies under the Act may not be enforceable.
3. Transfer fees are collectable to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer.
4. 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.
5. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site ~~shall~~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.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.
7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
- 6-8. Item 2 is amended to add the following: Franchises Washington may operate in the territory of a Zerorez Regional Developer. If your franchise is located in one of these territories, the following regional developer may provide certain services to your franchise.

REGIONAL DEVELOPER:

Anthony Holmes

Anthony is the Zerorez regional developer in Washington. Anthony has been the President of Puget Sound Investment Capital, Inc., which is a franchisee in the Seattle Washington area, since March 2015. Prior to becoming a Zerorez franchisee, Anthony was the Director of Business Operations at Callison Architecture in Seattle, Washington from December 2011 to March 2015. Anthony was an Associate with Blue Point Capital Partners in Seattle, Washington from November 2008 to December 2011.

~~7.9.~~ Item 3 is amended to add the following: No litigation is required to be disclosed in this Item with relation to the Zerorez Regional Developer.

~~8.10.~~ Item 4 is amended to add the following: No bankruptcy is required to be disclosed in this Item with relation to the Zerorez Regional Developer.

~~9.11.~~ Item 5 is amended to state that “In lieu of an impound of franchise fees, we will not require or accept the payment of any initial franchise fees until you have (a) received all initial training that you entitled to under the franchise agreement or offering circular, and (b) are open for business.”

**WASHINGTON ADDENDUM TO THE FRANCHISE AGREEMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

This Addendum (“**Addendum**”) is effective as of _____, 20__ to that certain Franchise Agreement dated _____, 20__ (“**Agreement**”) by and between Zerorez Franchising Systems, Inc., a Nevada corporation (“**Zerorez**”), and _____ (“**Franchisee**”). Notwithstanding any provisions in the Agreement, Zerorez and Franchisee hereby agree to the following:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail.
2. A release or waiver of rights executed by 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, or rights or remedies under the Act may not be enforceable.
3. Transfer fees are collectable to the extent that they reflect Zerorez’s reasonable estimated or actual costs in effecting a transfer.
4. The state of Washington has a statute, RCW 19.100.180 which may supersede the Agreement in Franchisee’s relationship with Zerorez including the areas of termination and renewal of the franchise. There may also be court decisions which may supersede the Agreement in Franchisee’s relationship with Zerorez including the areas of termination and renewal of the franchise.
5. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site shall ~~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..
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.
7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

~~6-8.~~ In lieu of an impound of franchise fees, Zerorez will not require or accept the payment of any initial franchise fees until Franchisee has (a) received all initial training that it is entitled to under the franchise agreement or offering circular, and (b) is open for business.

IN WITNESS WHEREOF, the parties have executed this Addendum to be effective as of the date set forth below:

Date: _____

ZEROREZ:

Zerorez Franchising Systems, Inc.

By: _____

Print Name: _____

Title: _____

FRANCHISEE:

Name of Franchisee: _____

By: _____

Print Name: _____

Title: _____

**WISCONSIN ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
ZEROREZ FRANCHISING SYSTEMS, INC.**

The Wisconsin Fair Dealership Law applies to most, if not all, franchise agreements and supersedes any provisions contained in the franchise or license agreement that are inconsistent with that Law.

EXHIBIT F

STATE EFFECTIVE DATES

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

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

<u>State</u>	<u>Effective Date</u>
<u>California</u>	<u>Pending</u>
<u>Hawaii</u>	<u>Pending</u>
<u>Illinois</u>	<u>Pending</u>
<u>Indiana</u>	<u>Pending</u>
<u>Maryland</u>	<u>Pending</u>
<u>Michigan</u>	<u>Pending</u>
<u>Minnesota</u>	<u>Pending</u>
<u>New York</u>	<u>Pending</u>
<u>North Dakota</u>	<u>Pending</u>
<u>Virginia</u>	<u>Pending</u>
<u>Washington</u>	<u>Pending</u>
<u>Wisconsin</u>	<u>Pending</u>

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

EXHIBIT G

RECEIPT

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If ZEROREZ Franchising Systems, Inc. offers you a franchise, ZEROREZ Franchising Systems, Inc. must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us in connection with the proposed franchise sale. Under Michigan law, if applicable, this period may be 10 business days, which could be longer than 14 calendar days. In addition, under New York law, if applicable, ZEROREZ Franchising Systems, Inc. must provide this Disclosure Document to you at the earlier of your first personal meeting to discuss the franchise or 10 business days before the execution of the franchise of other agreement or the payment of any consideration that relates to the franchise relationship.

If ZEROREZ Franchising Systems, Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit A. ZEROREZ Franchising Systems, Inc. authorizes the respective state agencies identified on Exhibit A to receive service of process for us in the particular state. William Shupe, 42577 S. 265 W., Draper, UT 84020 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062 is authorized as our agent for service of process where ZEROREZ Franchising Systems, Inc. is formed.

The franchisor is ZEROREZ Franchising Systems, Inc. located at 42577 S. 265 W., Draper, UT 84020 1809 West State Street, Building B-2, Pleasant Grove, Utah 84062. Its telephone number is (801) 443-1034.

Our franchise sellers involved in this offering and selling the franchise to you are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement

Devin Harper, 42577 S. 265 W., Draper, UT 84020 1809 West State Street, Building B-2, Pleasant Grove, Utah, (801) 443-1034.

I have received a Disclosure Document with an issuance date of March 29, 2019 [●] and an effective date of _____ that included the following Exhibits:

- A. State Administrators
- B. Franchise Agreement
- C. Financial Statements
- D. Franchisee Information
- E. State-Specific Addenda
- F. State Effective Dates
- F.G. Receipt

Date: _____ Your name (please print): _____

Your signature _____

You should return one copy of the signed receipt either by signing, dating, and mailing it to ZEROREZ Franchising Systems, Inc. at 42577 S. 265 W., Draper, UT 84020 1809 West State Street, Building B-2,



Pleasant Grove, Utah 84062, or by faxing a copy of the signed receipt to ZEROREZ Franchising Systems, Inc. at (801) 785-0200. You may keep the second copy for your records.

RECEIPT

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If ZEROREZ Franchising Systems, Inc. offers you a franchise, ZEROREZ Franchising Systems, Inc. must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to, us in connection with the proposed franchise sale. Under Michigan law, if applicable, this period may be 10 business days, which could be longer than 14 calendar days. In addition, under New York law, if applicable, ZEROREZ Franchising Systems, Inc. must provide this Disclosure Document to you at the earlier of your first personal meeting to discuss the franchise 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.

If ZEROREZ Franchising Systems, Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and those state administrators listed on Exhibit A. ZEROREZ Franchising Systems, Inc. authorizes the respective state agencies identified on Exhibit A to receive service of process for us in the particular state. William Shupe, 12577 S. 265 W., Draper, UT 840201809 West State Street, Building B-2, Pleasant Grove, Utah 84062 is authorized as our agent for service of process where ZEROREZ Franchising Systems, Inc. is formed.

The franchisor is ZEROREZ Franchising Systems, Inc. located at 12577 S. 265 W., Draper, UT 840201809 West State Street, Building B-2, Pleasant Grove, Utah 84062. Its telephone number is (801) 443-1034.

Our franchise sellers involved in this offering and selling the franchise to you are listed below (with address and telephone number), or will be provided to you separately before you sign a franchise agreement

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I have received a Disclosure Document with an issuance date of March 29, 2019 and an effective date of _____ that included the following Exhibits:

- A. State Administrators
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- D. Franchisee Information
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- F. State Effective Dates
- F.G. Receipt

Date: _____ Your name (please print): _____

Your signature _____

You should return one copy of the signed receipt either by signing, dating, and mailing it to ZEROREZ Franchising Systems, Inc. at 12577 S. 265 W., Draper, UT 840201809 West State Street, Building B-2, Pleasant Grove, Utah 84062, or by faxing a copy of the signed receipt to ZEROREZ Franchising Systems, Inc. at (801) 785-0200. You may keep the second copy for your records.

