

**FRANCHISE DISCLOSURE DOCUMENT  
PROSPECTIVE MASTER FRANCHISEES**

**SBS Franchising, Inc.**

(a Delaware company)

10530 Victory Blvd.

North Hollywood, CA 91606 (888) 479-7575

www.stratusclean.com



SBS Franchising, Inc. (“SBS”) grants master franchises providing for the right to sell and license individual commercial cleaning franchises using the Stratus Building Solutions system and trademarks known as a “unit franchise” within a designated territory. This franchise disclosure document covers the master franchise offering (the “Master Franchise”).

The Master Franchisee will operate a business offering unit franchises to operate a janitorial and building maintenance service under the name “**Stratus Building Solutions of \_\_\_\_\_**”, or “**Stratus of \_\_\_\_\_**.” The name will depend on the territory in which you are operating the Master Franchise. For example, if the Master Franchise territory is San Bernardino County, the name may be Stratus Building Solutions of San Bernardino County or Stratus of San Bernardino County. The DBA will be determined after purchase.

The total investment necessary to begin operation of a Stratus Master Franchise is from \$107,750 to \$708,000. This includes the initial franchise fee ranging from \$75,000 to \$575,000 paid to SBS.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Afshin Cangarlu, CEO, at 10530 Victory Blvd., North Hollywood, CA 91606, (888) 479-7575.

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

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

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

Issuance Date: April 1, 2017

## STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a 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:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY LITIGATION OR ARBITRATION ONLY IN THE STATE IN WHICH YOUR FRANCHISE IS LOCATED.
2. THE FRANCHISE AGREEMENT REQUIRES THAT THE LAW OF THE STATE IN WHICH YOUR FRANCHISE IS LOCATED GOVERNS THE AGREEMENT.
3. THE MASTER FRANCHISE AGREEMENT REQUIRES THAT ALL DISPUTES, CONTROVERSIES AND CLAIMS OF ANY KIND ARISING OUT OF OR RELATED TO THE MASTER FRANCHISE AGREEMENT BE FIRST SUBMITTED TO NON-BINDING MEDIATION.
4. YOU MUST MEET THE FOLLOWING REQUIREMENTS IN ORDER TO MAINTAIN THE EXCLUSIVE NATURE OF YOUR TERRITORY: IN THE SECOND YEAR AFTER OPENING YOU MUST MEET THE MINIMUM MONTHLY GROSS REVENUE REQUIREMENT OF \$50,000.00. IN THE THIRD YEAR, YOU MUST MEET THE MINIMUM MONTHLY GROSS REVENUE OF \$100,000.00. IN ADDITION, EACH YEAR THEREAFTER YOU MUST INCREASE YOUR MONTHLY GROSS REVENUE. IF YOU DO NOT MEET THESE MONTHLY MINIMUM REQUIREMENTS, SBS MAY:
  - (A) REQUIRE YOU AND YOUR KEY EMPLOYEES TO ATTEND, AT YOUR SOLE EXPENSE, REMEDIAL TRAINING, AND
  - (B) CANCEL YOUR EXCLUSIVE RIGHT TO YOUR TERRITORY.
5. THREE YEARS AFTER SIGNING THE MASTER FRANCHISE AGREEMENT, YOU MUST HAVE AT LEAST 50 OPERATING AND ACTIVE UNIT FRANCHISES WITHIN YOUR TERRITORY.
6. THERE MAY BE OTHER RISKS 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 make sure to do your own investigation of the franchise.**

Effective Date: See the next page for state effective dates.

## STATE EFFECTIVE DATES

The following states 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, Utah, Virginia, Washington and Wisconsin.

This Franchise 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	
California	
Connecticut	3/3/16
Florida	
Illinois	
Indiana	
Kentucky	
Maryland	
Michigan	
Minnesota	
New York	
Rhode Island	
South Dakota	
Texas	3/25/16
Virginia	
Washington	
Wisconsin	

In all other states that do not require registration, the effective date of this Disclosure Document is the issuance date of April 1, 2017.

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### **EXHIBITS**

EXHIBIT A	STATE ADMINISTRATORS
EXHIBIT B	TABLE OF CONTENTS OF OPERATIONS MANUAL
EXHIBIT C	FINANCIAL STATEMENTS
EXHIBIT D	FRANCHISE AGREEMENT (Master) with attachments
EXHIBIT E	PROMISSORY NOTE
EXHIBIT F	LIST OF MASTER FRANCHISEES
EXHIBIT G	STATE ADDENDUM TO MASTER FRANCHISE AGREEMENT
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EXHIBIT J	FORM OF GENERAL RELEASE
EXHIBIT K	RECEIPT

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

To simplify the language in this disclosure document, “Us”, “We”, “Our”, “SBS”, “or “Stratus Building Solutions” means SBS Franchising, Inc., the Franchisor. “You” means the person or entity who buys the franchise from SBS. If the franchise is purchased by a corporation, limited liability company, partnership or other entity, then “you” may also mean the shareholders, members, partners, or other owners of that entity. The person or entity buying the franchise is referred to as a “Master Franchisee” in the franchise agreement attached as Exhibit D of this disclosure document (the “Master Franchise Agreement”).

The Franchisor was formed as a Delaware company on January 13, 2015 to purchase the assets of our Predecessor described below. Our principal business address is 10530 Victory Blvd., North Hollywood, CA 91606, and our telephone number is (888) 479-7575. We do business under our trade name, “Stratus Building Solutions,” and the associated logos and designs registered on the Principal Register of the United States Patent and Trademark Office (these names and logos are referred to as the “Marks”). We do not own or operate any businesses of the type you will be operating. We have offered franchises in the line of business disclosed in this Disclosure Document since January 13, 2015 and we do not offer franchises in any other line of business. We offer Master franchises which operate under the Stratus Marks. SBS Franchising, Inc. does not operate businesses of the type being franchised.

The principal address for our agents for service of process are shown in Exhibit A.

**Our Parents, Predecessors and Affiliates**

We have no parent company.

**Predecessor**

Stratus Franchising, LLC, a Missouri limited liability company, is a predecessor of SBS Franchising, Inc. It was formed on October 19, 2006. Stratus Franchising, LLC offered janitorial service franchises beginning in October 2006. Its principal business address was 1976 Innerbelt Business Center Drive, St. Louis, MO 63114. The owners of Stratus Franchising, LLC were not the same as the owners of SBS Franchising, Inc. On January 30, 2015, SBS Franchising, Inc. acquired all assets of Stratus Franchising, LLC through an Asset Purchase Agreement of the same date, including all Intellectual Property and franchise agreements. Stratus Franchising, LLC has ceased operations and does not offer franchises in any line of business. Stratus Franchising, LLC had offered franchises in the line of business disclosed in this Disclosure Document since October 2006 and ceased offering franchises in this line of business on January 30, 2015. To our knowledge it did not offer franchises in any other line of business. To our knowledge Stratus Franchising, LLC does not operate businesses of the type being franchised.

**Affiliates**

Sarayan Building Solutions, Inc d/b/a Stratus Building Solutions of Los Angeles, San Bernardino and Riverside Counties is a California corporation formed on February 21, 2008 and maintains its principal place of business at 10530 Victory Blvd, North Hollywood, CA 91606. Sarayan has been operating a Stratus Master franchise offering Stratus unit franchises since 2008 and does not offer franchises in any other line of business. Sarayan is owned by Afshin Cangarlu and Foad Rekabi, shareholders in SBS Franchising, Inc. Sarayan offers franchises for Stratus Building Solutions unit franchises.

CRS Holdings LLC d/b/a Stratus of Metro Denver is a Colorado limited liability company formed on August 7, 2008 and maintains its principal place of business at 7010 Broadway, Suite 315, Denver, CO 80221. CRS has been operating a Stratus Master franchise offering Stratus unit franchises since 2008 and

does not offer franchises in any other line of business. CRS is owned by Channen Smith, shareholder in SBS Franchising, Inc. CRS offers franchises for Stratus Building Solutions unit franchises in Metro Denver.

Iowa Building Solutions, LLC d/b/a Stratus of Iowa is an Iowa limited liability company formed on February 5, 2009 and maintains its principal place of business at 801 Ashworth Road, West Des Moines, Iowa 50265. Iowa Building Solutions has been operating a Stratus Master franchise offering Stratus unit franchises since 2009 and does not offer franchises in any other line of business. Iowa Building Solutions is owned by Channen Smith, shareholder in SBS Franchising, Inc. Iowa Building Solutions offers franchises for Stratus Building Solutions unit franchises in Iowa.

Stratus Building Solutions of Arizona, Inc. d/b/a Stratus of Nebraska is an Arizona corporation formed on September 6, 2009 and maintains its principal place of business at 8045 L Street, Omaha, Nebraska 68127. Stratus Building Solutions of Arizona has been operating a Stratus Master franchise offering Stratus unit franchises since 2010 and does not offer franchises in any other line of business. Stratus Building Solutions of Arizona is owned by Channen Smith, shareholder in SBS Franchising, Inc. Stratus Building Solutions of Arizona offers franchises for Stratus Building Solutions unit franchises in Nebraska.

Stratus Building Solutions of Kansas LLC d/b/a Stratus of Kansas is a Kansas limited liability company formed on June 5, 2010 and maintains its principal place of business at 8735 Rosehill Road, Suite 250, Lenexa, Kansas 66215. Stratus Building Solutions of Kansas has been operating a Stratus Master franchise offering Stratus unit franchises since 2010 and does not offer franchises in any other line of business. Stratus Building Solutions of Kansas is owned by Channen Smith, shareholder in SBS Franchising, Inc. Stratus Building Solutions of Kansas offers franchises for Stratus Building Solutions unit franchises in Kansas.

PHSCCS SBC, LLC d/b/a Stratus of Metro Phoenix is an Arizona limited liability company formed on December 15, 2010 and maintains its principal place of business at 5009 E. Washington Street, Suite 120, Phoenix, Arizona 85034. PHSCCS has been operating a Stratus Master franchise offering Stratus unit franchises since 2011 and does not offer franchises in any other line of business. PHSCCS is owned by Channen Smith, shareholder in SBS Franchising, Inc. PHSCCS offers franchises for Stratus Building Solutions unit franchises in Metro Phoenix.

SBS San Diego Channen Co, LLC. d/b/a Stratus of Metro San Diego is a California limited liability company formed on December 15, 2013 and maintains its principal place of business at 9888 Carroll Center Road, Suite 110, San Diego, California 92126. SBS San Diego has been operating a Stratus Master franchise offering Stratus unit franchises since 2014 and does not offer franchises in any other line of business. SBS San Diego is owned by Channen Smith, shareholder in SBS Franchising, Inc. SBS San Diego offers franchises for Stratus Building Solutions unit franchises in Metro San Diego.

Channen Companies LLC is a Colorado limited liability company formed on December 7, 2010 and maintains its principal place of business at 7010 Broadway, Suite 300, Denver, CO 80221. Channen Companies is owned by Channen Smith, shareholder in SBS Franchising, Inc. It does not offer franchises for this or any other business.

BRMCloud, Inc. is a Delaware corporation formed on September 2, 2014 and maintains its principal place of business at 4267 Marina City Dr. #600, Marina Del Rey, CA 90292. BRMCloud, Inc. is owned by Afshin Cangarlu and Foad Rekabi, shareholders in SBS Franchising, Inc. and provides franchisees with CRM systems, consulting and IT support. It does not offer franchises for this or any other business.

## The Franchise Offered

We offer to individuals, partnerships and entities (i.e. corporations and limited liability companies) under this disclosure document a Master Franchise Agreement granting the right to license individual franchises known as “unit franchises” within a designated territory. For each unit franchise, a separate Unit Franchise Agreement must be signed between you and your Unit Franchisee. The offer and sale of unit franchises are made pursuant to another FDD. An Example form of the Unit Franchise Agreement is attached as Exhibit I for your information only. We are not making any offer of a unit franchise agreement in this Franchise Disclosure Document.

We franchise the right to you to operate a Master Franchise business. We license you and you, in turn, will license independent Unit Franchisees to use the Stratus trademarks, trade names, service marks, programs, materials, and procedures in the performance of complete cleaning and/or maintenance related services, including, but not limited to, commercial, industrial, institutional and residential cleaning services on a daily, weekly, or monthly basis and the providing of such specialty services as carpet care, floor care, window washing, wall cleaning, or programs of cleaning, sanitizing, deodorizing, and other related cleaning and/or maintenance services.

Stratus Building Solutions operates in a developed market. As such, you will compete with local, regional and national providers of commercial, industrial, institutional and residential cleaning services.

There are no regulations specific to the cleaning industry. Because you will be selling franchises to unit franchisees you will need to comply with the federal, state and local laws, rules and regulations that apply to the offering and sale of franchises. As such, you will be required to file a Franchise Disclosure Document with the applicable state agency, for the offer and sale of these unit franchises. Exhibit A of this disclosure document contains contact information for the state governmental agencies that regulate franchises in various states. The agents for service of process of SBS are also listed in Exhibit A of this disclosure document.

## **ITEM 2 BUSINESS EXPERIENCE**

### **Afshin Cangarlu, Chief Executive Officer**

Afshin Cangarlu is our Chief Executive Officer and has had that position since our inception in January 2015 in North Hollywood, CA. Mr. Cangarlu started as the Stratus Master Franchisee in the Los Angeles County territory in May of 2008 until January 2017.

### **Channen Smith, Chief Operating Officer**

Channen Smith is our Chief Operating Officer and had held this position since January 2015. Mr. Smith started as the Stratus Master Franchisee in the Denver, Colorado territory in February 2009 and thereafter started Master Franchises in Iowa (May 2009), Nebraska (June 2010), Kansas (June 2010), Arizona (March 2011) and San Diego (January 2014). Mr. Smith continues to operate these franchises from his offices in Denver, CO.

### **Foad Rekabi, Chief Technology Officer**

Foad Rekabi is our Chief Technology Officer and Corporate Secretary, and had held those positions since January 2015 in North Hollywood, CA. Mr. Rekabi started as the Stratus Master Franchisee in the Los Angeles County territory in January of 2009 until January 2017.

### **Marvin Ashton, VP of Master Franchisee Development**

Marvin Ashton is our VP of Master Franchisee Development and has held this position since February 2015 in North Hollywood, CA. Prior to that Mr. Ashton held the position Vice President of Master Franchisee Development with our predecessor Stratus Franchising from 2009 to February 2015, in North Hollywood, CA.

### **Jim Morrison, VP of Master Franchisee Account Sales Training**

Jim Morrison is the VP of Master Franchisee Account Sales Training and has held this position since February 2015, in Omaha, Nebraska. Jim started with Master Franchisee Stratus of Nebraska as an Account Executive within the Nebraska Region in 2009. He was promoted to Vice President/Sales and, initially, asked to develop the Nebraska and Kansas regions. In 2010, Jim was promoted to Vice President/General Manager for the Nebraska region, a position he held until his being named Vice President Master Franchisee Account Sales Training for SBS in 2015 in Omaha, Nebraska

## **ITEM 3 LITIGATION**

*Torres et al v. Simpatico, Inc., et al.*, United States District Court for the Eastern District of Missouri (St. Louis), Docket No. 4:12-CV-02373-CDP, filed 12/21/12. Plaintiffs filed suit against 179 defendants, including Stratus Franchising, LLC (the predecessor to SBS Franchising, Inc. in the ownership and operation of the Stratus Building Solutions franchise system) and numerous Stratus Master Franchisees and their owners (“the Stratus Defendants”), including Afshin Cangarlu and Channen Smith individually based on their ownership of Stratus Master Franchises alleging violation of the federal RICO statute. The District Court dismissed the claims against Channen Smith on April 8, 2013 and terminated claims against Afshin Cangarlu on July 29, 2013. The court further ordered that the Plaintiffs were required to arbitrate their complaints individually. The Plaintiffs appealed to the Eighth United States Circuit Court of Appeals, Docket No. 14-1567. On March 25, 2015, the Eighth Circuit held unanimously that the plaintiffs may *not* seek relief in court, but instead must arbitrate each and every one of the cases individually. SBS Franchising is not aware of any plaintiffs that commenced arbitration proceedings after the Eight Circuit’s decision.

Commonwealth of Virginia, ex rel., State Corporation Commission v. Pete Frese, Jr. and Stratus Franchising, LLC, Commonwealth of Virginia, State Corporation Commission, Case No. SEC-2011-00008 (2011). The Commission alleged that Stratus Franchising, LLC (the predecessor to SBS Franchising, Inc. in the ownership and operation of the Stratus Building Solutions franchise system) and Pete Frese, Jr., principal and officer of Stratus Franchising, LLC violated § 13.1-563 (2) of the Virginia Retail Franchising Act, § 13.1-557 et seq. of the Code of Virginia, by making untrue statements of a material fact or omitting to state a material fact necessary in order to avoid misleading the offeree in connection with the sale or offer to sell a franchise. On June 16, 2011 the defendants agreed to a Settlement Order pursuant to which they neither admitted nor denied the allegations but agreed to pay to the Treasurer of the Commonwealth of Virginia, fifteen thousand dollars (\$15,000) in monetary penalties and five thousand dollars (\$5,000) in costs and agreed not to violate the Virginia Retail Franchise Act in the future.

Other than that listed above, there is no litigation to be disclosed in this Item.

**ITEM 4  
BANKRUPTCY**

Mr. Afshin Cangarlu, 10530 Victory Blvd., North Hollywood, CA. 91606, President of SBS Franchising, Inc., was involved as a debtor in proceedings under the U.S. Bankruptcy Court, Central District of California, filed on May 2, 2011, Case no. 2:11-bk-29184-PC, and was granted a full discharge under Section 727 of Title 11 on September 2, 2011.

Other than above, no bankruptcy information is required to be disclosed in this Item.

**ITEM 5  
INITIAL FEES**

If you sign a Master Franchise Agreement, then you must pay us a nonrefundable initial franchise fee. This initial franchise fee is based primarily upon the population of the exclusive territory granted to you as described in the Master Franchise Agreement. An identical fee is not charged to all Master Franchisees. The formula for calculating this fee is \$75,000.00 USD for territories up to 1,000,000 in population and \$5,000.00 USD for each population of 100,000 people above the initial 1,000,000 population in the exclusive territory. The population of a particular territory is based on data from the most recent United States Census report. Therefore, the initial franchise fee for an exclusive territory with a large population will be greater than an exclusive territory with a lower population. This formula may vary somewhat according to the density of the population related to the total area. This is the total amount, except for any applicable sales tax, which is payable by you.

If, at a later date, you want to be the Master Franchisee for an additional territory, then you must sign another Master Franchise Agreement. Please note that the Master Franchise Agreement for each additional territory will be in the form currently used by SBS and, therefore, may differ from the terms of the Master Franchise Agreement described in this disclosure document. If you are in good standing, meaning you are meeting or exceeding all of the required growth goals, then the nonrefundable, initial franchise fee for the additional territory will be 50% of the initial franchise fee that SBS is charging new master franchisees at that time.

The initial franchise fee is due and payable in good funds or pursuant to financing as described in Item 10 at the time the franchise agreement is entered into by the parties. The initial franchise fee is fully earned and non-refundable.

**ITEM 6  
OTHER FEES**

Type of Fee*	Amount	Due Date	Remarks
<b>Royalty</b>	3%/2.5%/2% on Contract Services and Sales; 20%/15%/10% of unit franchise fees (See Note 1)	Payable monthly by the 10 <sup>th</sup> day of the next month for all gross revenue	Gross monthly revenue includes all revenue from the use of the Stratus mark and your franchise business, excluding sales tax.
<b>Advertising and Public Relations Fund</b>	\$150 or 1% per month of gross billing, whichever is greater	Payable monthly by the 10 <sup>th</sup> day of the next month for all gross revenue	Fee starts 12 months after opening. The term "gross billing" means the dollar value of the initial cleaning revenue supplied by you to the unit franchisee in the form of cleaning contracts.
<b>Franchise Sales</b>	20%/15%/10% of total down payment of the sale of each unit franchise, including deferred down payments (financing) and upgrades on unit franchisees (See Note 1)	Payable monthly by the 10 <sup>th</sup> day of the next month for all unit franchise agreements signed	The term "down payment" means the initial money paid by the unit franchisee to you as consideration for the unit franchisee's initial franchise plan.
<b>Transfer</b>	10% of all proceeds given as consideration for the sale, transfer or assignment with a minimum of \$25,000	Upon transfer	Payable when you sell your franchise. No charge if transferred to a family member or corporation which you control.
<b>Marketing and Technology Fee</b>	\$150 or 1% per month of gross billing, whichever is greater	Payable monthly	Software & Web hosting services include hosting, producing, updating and maintaining the business solution software required in your business and internet microsites connected to the Stratus website.
<b>Annual Conference</b>	The conference is free. However, Master Franchisees must pay for their own travel and lodging.	Variable	Attendance is mandatory.
<b>Customer Appointment</b>	\$75 to \$100 per appointment	Payable monthly	The term "customer appointment" means contact information for potential customers provided to you to be used in your business- to-business telemarketing sales efforts.
<b>In-depth Business Consultation after first 12 months</b>	\$350.00 per day, plus actual and reasonable expenses.	Upon Invoice	If, after your first 12 months in operation you request in-depth business consultation at your offices or our headquarters, you will incur this fee.
<b>Late Payment Fee</b>	5% of delinquent amounts	Upon Invoice	See Note 2
<b>Late Reporting Fee</b>	\$50.00 per day	Upon Invoice	This fee will be assessed where any report required to be submitted to us is not received by the tenth of any month in which the report is required to be submitted.

\* All of these fees are payable to us and are nonrefundable and uniformly imposed.

Note 1: The Royalty is scaled based on the amount of revenue generated by your Master Franchise business. For contract services and sales, 3% on revenue less than \$300,000, 2.5% on revenue between \$300,000 and \$500,000, and 2.0% over \$500,000. For unit franchise fees, 20% on revenue less than \$300,000, 15% on revenue between \$300,000 and \$500,000, and 10.0% over \$500,000.

Note 2: Any of these fees that is not paid when due, is subject to a late charge which is the greater of 5% of the delinquent payment or the maximum late fee allowed by the law in the state of your Territory.

Note 3: We may collect all fees from you through ACH electronic transfer. You are required to sign all documents necessary to establish an ongoing ACH electronic transfer.

SBS may implement, from time to time, new programs and operating procedures that would allow it to provide improved productivity or to render better services and may require that additional capital from you be provided. Examples of such programs are the use of technology to generate more lead sources for you, better ways to communicate with you and improved promotional materials, sales materials and service manuals. The additional capital from you that would be required ranges from \$10 to \$300 per month.

## ITEM 7 ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount <sup>1</sup>	Method Of Payment <sup>2</sup>	When Due	To Whom Payment is to be Made
INITIAL FRANCHISE FEE <sup>3</sup>	\$75,000 - \$575,000	Lump Sum	At Signing	Us
REAL ESTATE <sup>4</sup>	\$1,500 – \$15,000 (varies depending on the market)	As Arranged	As Arranged	Property Mgt. Co.
INITIAL SUPPLIES <sup>5</sup>	\$500-\$1,000	As Incurred	As Incurred	Suppliers
EQUIPMENT <sup>6</sup>	\$1,000 – \$2,500	Lump Sum/ Installment	Before Opening	Suppliers
LICENSES, PERMITS, SECURITY DEPOSITS, ETC. <sup>7</sup>	\$750 – \$5,000	Lump Sum	Before Opening	Government Agencies, Utilities
INSURANCE <sup>8</sup>	\$1,000 – \$3,500	As Incurred	As Incurred	Suppliers
TRAINING <sup>9</sup>	Varies \$3,000 - \$6,000	As Incurred	As Incurred	Unknown
ADDITIONAL FUNDS <sup>10</sup> (3-6 months)	\$25,000 – \$100,000	As Incurred	As Incurred	Retained by You (Paid to Vendors/ Employees)
<b>TOTALS</b>	\$107,750 to \$708,000			

Footnotes:

1. These expenses are estimates. We urge you to consult with experience financial and legal advisors who can assist you in analyzing your potential expenses and developing a business plan and financial projections for your particular master franchise. These estimates are based on costs and expenses as would be incurred to establish a Master Franchise in a non-union market. The costs and expenses to you if

you establish a Master Franchise in a union market may result in higher costs. These estimates may vary with factors such as the size of the Territory, its location, economic conditions, local conditions, local code or other requirements (e.g., union labor), availability of materials and labor, taxes, interest rates and other items. The estimates do not take into account any financing charges, inflation, compensation for your time or labor, rent or interest payable before the Master Franchise opens for business or related costs which you may have to pay. For the estimated range of costs, SBS has relied on its and that of its founders' experience in the cleaning industry, as discussed in Items 1 and 2 of this disclosure document. With respect to fees payable to us, these fees are not refundable.

2. Payments are not refundable.

3. The initial franchise fee includes the cost of initial office supplies and promotional/sales materials. To assist in your purchase of a Master Franchise, SBS may, at its option, finance up to 20% of the initial franchise fee at an interest rate of 10% as described in detail in Item 10.

4. You are not allowed to operate your business from your home. There is no requirement that you purchase or lease any real estate from SBS, but you are required to maintain an appropriate business office, which must be approved as to location and décor by SBS, and you must conduct your business from there. The décor of the business office does not involve any extraordinary cost, other than customary expenses. Initial deposits and build-out of office space may cost you \$500 to \$2,500, depending on the office space leased.

5. You are not required to purchase any supplies from SBS.

6. You will be required to purchase a commercial back pack vacuum cleaner, a commercial floor polisher (high speed), a commercial scrubber (slow speed), and a commercial wet/dry vacuum. These items are not included in the initial supply package furnished by SBS. Based on our experience, depending upon whether the equipment is new or used, the cost of the equipment may range from approximately \$1,000 to \$2,500 from any equipment supplier. This equipment is used as back-up equipment for the Unit Franchisees and may be rented by you to your Unit Franchisees. You are not required to purchase any equipment from SBS.

7. You must obtain all proper business licenses and permits from your state and local agencies before engaging in business. These filing and application fees may range up to \$500 each, depending on your location or the location of your Unit Franchisee. You may also need to hire legal counsel or a financial professional to assist you in the preparation of franchise disclosure documents, franchise agreements, financial statements, etc. in order to comply with state franchise law requirements. Security deposits and other expenses which must be prepaid and working capital will also vary substantially. Typically, a business telephone and office equipment costs will range from \$500 to \$3,000 depending on the quality and quantity.

8. Before commencing operations, you must purchase comprehensive liability insurance, including, but not limited to, property, bodily injury, product and automotive coverage. The cost of such coverage varies, depending on several factors such as: the charges established by the carrier, terms of payment, and your prior history. Typically, adequate coverage will require an investment of between \$1,000 and \$3,000. You must also secure a commercial cleaning service bond. You will obtain insurance, covering yourself, your employees, and your Unit Franchisees, while naming SBS Franchising, Inc. as an Additional Insured and include a Grantor of Franchise endorsement, in the following minimum amounts and provide proof of coverage on demand:

<b>Type</b>	<b>Minimum Limit</b>
Commercial Cleaning Service Bond	\$50,000
Comprehensive General Liability	\$2,000,000
Worker's Compensation	"Statutory Benefits"

The limits described in the table above will include complete operations and products coverage with an extended property damage endorsement for building service contractors. SBS may increase the minimum limits of insurance required or have new types of coverage added at its sole discretion when circumstances so dictate or as the laws of your home jurisdiction may dictate.

9. You must pay any expenses incurred in traveling to the Training. Initial Training will last two weeks; one week in Los Angeles, California and one week in Denver, Colorado. Actual costs will depend on the distance traveled, lodging, meals, type of transportation, etc.

10. While no other amounts are payable to SBS, you must have access to funds for working capital in the approximate amount of \$25,000 to \$100,000 for operational expenses during the first 3 to 6 months of operation. These expenses will be for supplies, utilities, local advertising and other miscellaneous costs. Your working capital requirements may increase or decrease depending upon your geographic area, number of employees, labor rates, minimum wage laws, operating revenues and other economic factors. Living expenses are not calculated since they vary with each Master Franchisee. The estimate of working capital and total estimates are based on SBS and its founder's experience in the cleaning industry.

There are no other direct or indirect payments in conjunction with the purchase of the Master Franchise.

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

SBS has no required specifications, designated suppliers, or approved suppliers for goods, services or real estate relating to your franchise business other than the business solution software it requires you to use in the operation of your franchised business which is provided as part of the Marketing and Technology Fee. SBS does not sell or lease any products to Master Franchisees. If you purchase any goods, services, supplies, materials or other products from a supplier who has established a business relationship with us, or purchases made directly from us, we may derive revenue from the purchases made by you. SBS has a relationship with Nyco, a chemical and cleaning product supplier that provides Stratus branded chemicals that are required as part of our programs which you must use. SBS receives discounts on behalf of the Master Franchisees and has developed a distribution network to ensure the Master Franchisee access to said chemicals. Additionally, SBS has strategic relationships with equipment vendors to ensure that Master Franchisees receive preferential pricing from its strategic vendors, but these suppliers are not restricted by SBS to the Master Franchisees. SBS has not received any revenue from purchases made by Master Franchisees of goods, services, supplies, materials or other products. Two SBS officers own an interest in brmCloud. Otherwise, none of our officers own any interest in any approved or designated required suppliers. Neither the Franchisor nor any of the persons affiliated with the franchisor are currently approved suppliers. Other than the following, none of our Affiliates are currently approved suppliers: Our Affiliate brmCloud, Inc. is the only approved supplier of the CRM systems, consulting and IT support for the business solution software it requires you to use. Those costs are paid by SBS to brmCloud as part of the Marketing and Technology fee paid by franchisees. Franchisees do not pay anything directly to brmCloud for these services. In 2016 SBS paid brmCloud \$313,066. We estimate that your purchase or lease of equipment and supplies from suppliers and manufacturers (or those which meet our specifications) will represent approximately 1% of your costs to establish your Stratus Master Franchise and approximately 5% of your costs for ongoing operation.

We do not have a purchasing or distribution cooperative at this time, but may establish one in the future, in our sole discretion. We do not provide material benefits to a franchisee based on the franchisee's purchase of particular products or services or use of a particular supplier.

## ITEM 9 FRANCHISEE'S OBLIGATIONS

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

	<b>Obligation</b>	<b>Section in Agreement</b>	<b>Disclosure Document Item</b>
a.	Site selection and acquisition/ lease	Section II	Item 11
b.	Pre-opening purchases/leases	NA	Item 8
c.	Site development and other pre-opening requirements	Section II	Items 6, 7 and 11
d.	Initial and ongoing training	Sections XVI	Item 11
e.	Opening	Section II	Item 11
f.	Fees	Section IV & Attachment A	Items 5 and 6
g.	Compliance with standards and policies/operating manual	Section VI	Item 11
h.	Trademarks and proprietary information	Section XV	Items 13 and 14
i.	Restrictions on products/services offered	Section VII	Item 16
j.	Warranty and customer service requirements	NA	Item 11
k.	Territorial development and sales quotas	Sections II & V	Item 12
l.	Ongoing product/service purchases	NA	Item 8
m.	Maintenance, appearance, and remodeling requirements	NA	Item 11
n.	Insurance	Section XIII	Items 6 and 8
o.	Advertising	Sections VI-B & XV	Items 6 and 11
p.	Indemnification	Section XV-L	Item 6
q.	Owner's participation/management/staffing	NA	Items 11 and 15
r.	Records and reports	Section IV	Item 6
s.	Inspections and audits	Section X-C	Items 6 and 11
t.	Transfer	Section VIII	Item 17
u.	Renewal	Section III	Item 17
v.	Post-termination obligations	Section XVII	Item 17
w.	Non-competition covenants	Section XII	Item 17
x.	Dispute resolution	Section XVIII	Item 17
y.	Other (Copyrights, Patents)	NA	Item 14

## ITEM 10 FINANCING

The initial franchise fee must be paid in full at the time you sign the Master Franchise Agreement. To assist in your purchase of a Master Franchise, SBS may, at its sole option, based on various objective and subjective analysis of your creditworthiness, finance up to 20% of the initial franchise fee. If SBS elects this option, you will be required to sign a promissory note with you as maker, substantially in the form attached to the Master Franchise Agreement as Exhibit E. Typically, the promissory note will obligate you to pay the unpaid principal balance in monthly installments over a three-year period at an interest rate of 10% per annum, or the maximum allowed by law, whichever is lower. If the Master Franchisee is a partnership or entity (i.e. a limited liability company or corporation), then the promissory note must be

guaranteed individually by all partners or owners/shareholders. The debt secured by the promissory note may be prepaid with no prepayment penalty. In the event of nonpayment or other default under the promissory note or in the event of a breach of the Master Franchise Agreement, the payment of all principal and interest may be accelerated at SBS' option. The terms of the financing do not include any waivers of legal rights by you. The terms of the note do not prevent you from asserting a defense against SBS or any party to whom SBS may assign the note. Financing is offered only for the initial franchise fee, and not for any other purpose.

Item Financed (Source)	Source of Financing (Lender)	Down Payment	Amount Financed	Term (Years)	APR % (include any finance charges)	Monthly Payment	Prepayment Penalty	Security Required? If so, in what collateral?
Franchise Fee	Us	80%	20% of the Franchise Fee, this is dependent on the size of the Territory	3	10%	Depends on the amount being financed	None	Franchise Assets

Neither SBS nor any agent or affiliate has any practice of selling, assigning, or discounting to a third party, in whole or in part, any note, contract or other instrument signed by you. However, it reserves the right to do so in the future.

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

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

1. Assistance Before Opening – After approval of your Master Franchise, and before opening:
  - a. **Locations.** SBS will advise you in determining a location for and establishing an office for the operation of your Master Franchise business as a portion of SBS' services during the training period. SBS must approve your office location, furnishing and décor in order to protect the image and reputation of Stratus. However, SBS does not have any experience or expertise in selecting real estate sites in the geographic area where your Master Franchise will be located and, therefore, SBS has no obligation duty or liability to you as a result of the site selected by you. SBS will review the site and will review any lease for the premises for compliance with the terms and conditions of the Master Franchise Agreement. Factors considered by SBS when reviewing a proposed site include accessibility, visibility, population trends, household income and financial statistics, lease terms and other demographic information. SBS will accept, reject or provide comments to you regarding your proposed site within 30 days after SBS' receipt of your site proposal. Your Master Franchise Agreement will not be terminated due to a rejection of your proposed site. You will simply continue to search and propose sites until one is approved by SBS. SBS' approval of your site and premises is not a warranty, representation or guaranty by SBS that a Master Franchise opened at that site will be a financial success. (See Section III(E) of the Master Franchise Agreement). There is no time limit or consequence if a site not selected. SBS does not generally own the premises of any office location.

You will at all times maintain your office and all fixtures, furnishings, signs and equipment in good order and condition, and in conformity with the Stratus system image as may be prescribed by SBS from time to time. You will make all necessary additions, alterations, repairs and replacements to the office as required by SBS. However, you cannot make any other additions, alterations, repairs or replacements not specifically requested by SBS without first obtaining its written consent. This includes, but is not limited to, periodic repainting or replacement of signs, furnishings, equipment or décor. Furthermore, you will make certain that your office conforms to all applicable local ordinances and building codes. You will also be required to obtain all necessary permits and licenses (i.e. occupancy, sanitation, building, driveway, utility, etc.) No other business venture will operate out of the premises used by you for your office without first obtaining SBS' written consent. You will require any Unit Franchisee who leases commercial office space outside of their residence to fully comply with the conditions described in this paragraph. (See Section III(E) of the Master Franchise Agreement.)

b. **Manuals.** SBS will make available and provide to you confidential manuals and training aids, constituting the new materials office package. These items are confidential and will remain the property of SBS during and after the term of the Master Franchise Agreement. (See Sections VI(D) and XVI of the Master Franchise Agreement.)

c. **Training.** SBS will provide you with a four Phase training program. Phase I, the initial training, will last two weeks. The first week will be conducted at our home office in Los Angeles, California and the second week will be at our Denver, Colorado offices. Phases II, III and IV will be conducted at your offices approximately 30, 90 and 180 days after you open your office. (See Section XVI of the Master Franchise Agreement.)

2. During the operation of the Master Franchise:

a. **On-Site Assistance.** SBS will provide an additional period of on-site assistance in the office start up, sales, operations, and administrative procedures implementation. (See Section XVI of the Master Franchise Agreement.)

b. **Manuals.** SBS will loan you a copy of the Operating Manuals and other confidential manuals and training aids. The manual is 54 pages. These items are confidential and will remain the property of SBS during and after the term of the Master Franchise Agreement. (See Section XVI of the Master Franchise Agreement.)

c. **Use of Marks.** SBS will allow you the right in your exclusive territory as described in the Master Franchise Agreement to use the Stratus marks, insignia, logo, design, and color scheme, and to utilize the processes, methods, materials, equipment and promotional items developed by SBS. (See Sections II(A) and XVI of the Master Franchise Agreement.)

d. **Advising.** SBS will advise you of all appropriate facets of the Stratus system as well as all pertinent new developments in the janitorial service industry including procedures for improved efficiency. (See Section XVI of the Master Franchise Agreement.)

e. **Other Materials.** SBS will inform you of promotional materials, sales materials and service manuals, and other materials as they are developed that would be relevant to the operation of your Master Franchise and to provide these materials to you at a reasonable cost. (See Section XVI of the Master Franchise Agreement.)

f. **Advertising.** You must contribute to the Stratus Advertising Fund. Under the Master Franchise Agreement, you agree to pay to SBS a monthly advertising and public relations fee of \$150.00 or 1% of your gross revenues, whichever is greater. These fees comprise the advertising fund and this fund is administered by SBS. Any SBS-owned Master Franchise business must contribute to the advertising fund on the same basis and at the same time as other Master Franchisees.

SBS will not use the advertising fund to solicit other Master Franchisees. Instead SBS will use the advertising fund to advertise in cleaning trade magazines in order to acquire new accounts and in entrepreneurial-type magazines to assist in the acquisition of unit franchisees. The advertising will mainly be conducted at a national level. Where radio is available, SBS may assist the local advertising on a regional level.

The advertisements will be generated in-house by SBS. SBS will direct its advertising programs and control the creative concepts, materials and media used, media placement and allocation. SBS is not obligated to make expenditures for you, which are equivalent or proportionate to your contributions to the advertising fund. SBS will not ensure that any particular Master Franchisee benefits directly or proportionately from the advertising fund. SBS also is not obligated to spend any amount of the advertising funds in your particular territory nor is SBS obligated to make certain that its advertising impacts or penetrates your territory. The advertising fund is not a trust, and SBS is not a fiduciary.

The advertising fund may be used to meet all costs of administering, directing, preparing, placing and paying for national, regional or local advertising. Neither SBS nor its affiliates, receive payment for providing goods or services to the advertising fund. SBS is not obligated to maintain the advertising fund and income earned by the advertising fund in a separate account. The advertising fund is not audited.

SBS will spend most of the advertising funds during the fiscal year in which the advertising fees are paid. We received \$478,409 in advertising fund fees in 2016. We expended \$470,429. The advertising funds were spent as follows: 65% of advertising funds were expended for production (proprietary software for use by customers seeking Stratus Building Solution services), 21% were expended for media placement, and 12% were expended for administration of the advertising fund. The remaining balance of \$7,980 (2%) will rollover to 2017. You will not receive a periodic accounting of the advertising fund. If you would like additional information pertaining to an accounting of the advertising fund, you will need to send a letter stating such request to SBS' principal office to the attention of the COO, and SBS will provide you with the information within 10 business days of SBS' receipt of your written request.

If SBS spends *more* than the amount in the advertising fund in any fiscal year (in addition to any money it has to spend because it did not spend all the money in the fund during the year before), then SBS can reimburse itself from the advertising fund during the next fiscal year for all excess expenditures during the previous fiscal year.

If SBS spends *less* than the total in the fund during any fiscal year, SBS can either spend the unused money during the next fiscal year or it can rebate all or a portion of the unused money to Master Franchisees on a basis proportionate to their contributions.

The advertising fund described above is the only such fund in which you are obligated to participate.

Although SBS intends that the advertising fund will be perpetual, SBS can terminate the fund at any time.

### *Advertising by Master Franchisee*

You are not required to spend any particular amount on advertising in your territory. However, it is highly recommended that a portion of your working capital be allocated to local advertising in order to enable you to meet the sales volume or market penetration requirements as described more fully in Item 12 of this disclosure document and Section V of the Master Franchise Agreement.

You may develop advertising materials for your own use, at your own cost. However, before you use your own advertising materials, you must first get SBS' written approval of your advertising materials. (See Section IV(B)(4) of the Master Franchise Agreement). There are no restrictions concerning the use of advertising on the Internet or a World Wide Web page, other than to first get SBS' written approval of the advertising materials to be presented on the Internet or World Wide Web.

### *Advertising Cooperatives/Advertising Councils*

There is no advertising council comprised of Master Franchisees that advises SBS on advertising policies. The Master Franchise Agreement does not give SBS the power to form, change or dissolve an advertising council.

There is no advertising cooperative that you must join or to which you must make contributions. The Master Franchise Agreement does not give SBS the power to form, change, dissolve or merge an advertising cooperative.

SBS Franchising, Inc. is not required to spend any amount on advertising in the Master Franchisee's territory or area.

g. **Consultation.** A representative of SBS will be available to answer routine questions by telephone and/or computer during normal business hours. (See Section XVI of the Master Franchise Agreement.) In-depth business consultations at your business office or at SBS' Corporate headquarters, after the initial 12 months is available at the rate of \$350.00 per day, plus actual and reasonable expenses. This rate is subject to review every 12 months, depending on rises in cost from year to year. This rate would only apply if deficiencies continued after corrections had been suggested by SBS.

h. **Guidance.** Although not cited within the Master Franchise Agreement, and SBS is not required to perform such services under the Agreement, SBS will use its best efforts to provide the following guidance and assistance on a continuing basis to enhance the growth and performance of the Stratus Master Franchise program. Such guidance and assistance will include the following:

1. SBS will continue to search for more cost-efficient sources of supplies. With the strength of group purchasing, SBS will endeavor to purchase supplies and inventory at reduced rates, and pass along the benefits of quantity purchasing to all Master Franchisees. However, you are not required to purchase any cleaning equipment or supplies from SBS or other parties and you may be able to obtain equal or lower prices on comparable products purchased from other sources.
2. SBS may perform periodic quality control visits to your office. During such visits, all phases of operations are inspected and recommendations to correct deficiencies, improve techniques, and enhance the efficiency of your Master Franchise will be offered.

There is no other supervision, assistance or service to be provided by SBS during the operation of your Master Franchise business.

The typical length of time between the signing of the Master Franchise Agreement or the first payment of any consideration for the Master Franchise and the opening of your business is eight weeks and depends on a number of factors including, but not limited to: finding an approved office site, completing your training program; obtaining the required business permits and licenses, acquiring inventory, equipment and supplies; obtaining financing (if applicable); and hiring and training your employees.

**Computer Systems.** You must use the business solutions software we require. SBS will not have independent access to your computer data and information. However, SBS can review, inspect, audit and make copies of all of your Master Franchise's financial records. Therefore, you must give your passwords and other information necessary to access your computer software and computer-stored files, so that SBS can perform an inspection or audit. (See Section X(C) of the Master Franchise Agreement.) Furthermore, SBS can assume the responsibility for your computerized or manual billing and accounting services, if certain circumstances as outlined in the Master Franchise Agreement arise. In such an event SBS will, on or before the 5th day of each month, disburse to you all monies due to you from actual collections during the past calendar month, after deducting all royalties due and owing to SBS and after deducting an amount equal to the costs and expenses incurred by SBS for performing such billing. In the event the 5th day of the month falls on a Saturday, Sunday, or recognized holiday, then all such amounts due to you will be disbursed before the end of the next business day. (See Section X(D) of the Master Franchise Agreement). The cost of the CRM system is paid through the Marketing and Technology Fee you are required to pay to us. If you purchase a computer for the business, we anticipate the cost to be approximately \$1,000.00.

## Training Program

### TRAINING PROGRAM

Training Phase	Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Phase I (Week 1)	Business overview	4	0	Los Angeles, CA
	Franchise Sales	12	4	
	Franchisee Development	8	0	
	Franchisee Operations and Training	4	0	
	Accounting/Opus	4	4	
Phase I (Week 2)	Review Week 1 and Denver Office Overview	4	0	Denver CO
	Account Sales Overview/Inside Sales	2	2	
	Account Sales	8	8	
	Accounting & Opus Setup	2	4	
	Business Strategy and Policies/Procedures	4	0	
	Franchise System overview and Conclusion	4	0	
Phase II	On-Site Training: Unit Franchisee training methods, franchise sales review, account sales training, operational and management aspects of the Stratus office (3 days approx.. 30 days after opening)	24	0	Your office
Phase III	On-Site Training: Customer service training (3 days approx. 90 days after opening)	24	0	Your office
Phase IV	On-Site Training: Administration training (3 days approx.. 180 days after opening)	24	0	Your office

Phase I Training is offered monthly as needed. Subsequent phases are schedule approximately 30, 90 and 180 days after you open your office.

Instructional materials for the Phase I Training include the Master Owner's Manual, the Franchise Training Manual and the Procedures Manual. Instructional materials for the Phases II, III and IV. Training include the Franchisee Training Manual, the Operations Manual, the Procedures Manual and the Contract Sales Manual. Instructors for Phase I Training include the Development Manager and/or Office Manager and/or Operations Manager and/or Training Manager. Instructors for Phase II Training include the Operations Manager and/or Training Manager and/or Sales Manager.

All training instructors are required to have a minimum of two years of industry experience before training any Master Franchisees. The current instructors are:

Afshin Cangarlu, Chief Executive Officer. He has held that position since our inception in February 2015. Mr. Cangarlu was the Stratus Master Franchisee in the Los Angeles County territory from May 2008 to January 2017 and has nine years of experience in the operation and management of a Stratus master franchise.

Channen Smith, Chief Operating Officer. He has held this position since February 2015. Mr. Smith started as the Stratus Master Franchisee in the Denver, Colorado territory in February 2009 and thereafter started Master Franchises in Iowa (May 2009), Nebraska (June 2010), Kansas (June 2010), Arizona

(March 2011) and San Diego (January 2014) and has eight years of experience in the operation and management of a Stratus master franchise.

Foad Rekabi, Chief Technology Officer and Corporate Secretary. He has held those positions since February 2015. Mr. Rekabi was the Stratus Master Franchisee in the Los Angeles County territory from January 2009 to 2017 and has eight years of experience in the operation and management of a Stratus master franchise.

Marvin Ashton, VP of Master Franchisee Development. He has held this position since February 2015. Prior to that Mr. Ashton held the position of VP of Master Franchisee Development for Stratus Franchising, our predecessor, from 2009 to February 2015 where he was responsible for the overall Operations of the office and management of the territory and has eight years' experience in Stratus franchise sales.

Jim Morrison is our VP of Master Franchisee Account Sales Development and has held this position since February 2015. Jim started with Stratus as an Account Executive with the Nebraska Region in 2009. He was promoted to Vice President/Sales and, initially, asked to develop the Nebraska and Kansas regions. In 2010, Jim was promoted to Vice President/General Manager for the Nebraska region, a position he held until his being named Vice President Master Franchisee Account Sales Training in 2015 and has eight years' experience in the operation and management of Stratus master franchises.

SBS does not charge for training sessions. However, you must pay your travel expenses to and from the training site as well as any and all of your living expenses while in Los Angeles and Denver for the Phase I training including, but not limited to, lodging, food, transportation, entertainment, etc.

You or another person with a principal financial interest in your Master Franchise are required to attend our training program. Regional Directors also have to complete the training program. The "Regional Director" is the person or entity designated by you to be personally responsible for the day-to-day management of the franchise and for compliance with the terms of the Master Franchise Agreement, if you will not be working in such a capacity.

You will be allowed to open your Master Franchise only after you or another person with a principal financial interest in your Master Franchise has completed Phase I of the training program to the satisfaction of SBS, in its sole discretion. If the training attendee does not satisfactorily complete Phase I of the training you must have the attendee retake the Phase I training program or appoint another individual to attend Phase I training. You may not open your Master Franchise until Phase I of the training program is satisfactorily completed.

SBS will also provide annual and/or regional master franchise meetings and seminars from time to time. Your attendance at these sessions is mandatory and there is no fee for attendance. You will be responsible for your travel and lodging costs (See Section XVI of the Master Franchise Agreement). There is customarily one annual conference.

No additional training programs are required, unless otherwise noted in this disclosure document.

## **ITEM 12 TERRITORY**

Designated/Exclusive Territory - You will be licensed and permitted to operate under the Master Franchise Agreement in a specific territory as designated in the Master Franchise Agreement. The territory is typically delineated by the boundaries of the designated Standard Combined Statistical Area, and/or specific county, city or country borders sufficient to encompass a specified population. This territory will be determined by SBS, and you will be informed as to the specific boundaries of the territory before the signing of the Master Franchise Agreement. The territory will be initially determined by a population analysis and will thereafter remain static for the term of the Master Franchise Agreement. A description of the exclusive territory will be inserted in to the body of the Master Franchise Agreement, or a map or description of the exclusive territory will be attached to the Master Franchise Agreement as an exhibit. You may be granted an option to acquire exclusive rights to an additional territory as so designated in the Master Franchise Agreement. In general, Master Franchisees may in the normal course acquire additional territories in which to offer Unit Franchises, however, the Master Franchise Agreement grants the Master Franchisee no options, rights of first refusal or similar rights that would entitle it to do so. If you are an operating Master Franchisee exceeding all of the required growth goals, then the nonrefundable, initial franchise fee for an additional territory will be 50% of the initial franchise fee that SBS is charging new master franchisees at that time.

You will have the exclusive right to operate the Master Franchise within the described territory and SBS will not grant other such franchises nor establish our own outlets within the territory, except under the limited circumstances provided for in the Master Franchise Agreement related to the failure of the Master Franchisee to meet the minimum growth obligation described below or a termination of the Master Franchise Agreement. SBS is restricted from establishing franchises or company-owned outlets within the territory that offer similar services to the Master Franchisee under a different trademarks. Neither SBS nor any affiliate it operates, or has plans to operate, will operate a business under a different trademark that sells or will sell services similar to those the Master franchisee will offer. SBS has no rights to establish franchises or company-owned locations that offer similar services within the territory through other distribution channels.

Continuation of your territorial exclusivity is dependent upon your achievement of the sales volume or market penetration requirements described in Section V of the Master Franchise Agreement and as summarized immediately below. Failure to maintain those minimum levels could result in the loss or modification of your exclusive rights to the territory, otherwise your territorial rights will remain unchanged during the term of the Master Franchise Agreement.

**Minimum Annual Revenues.** Within one year after the opening date, you must meet the minimum monthly gross revenue requirement of \$50,000 (the “minimum monthly revenues”). This means that, beginning with the second year after the opening date (i.e. the 13<sup>th</sup> calendar month after the opening date) you must generate at least \$50,000 in monthly gross revenues on an annual basis. Within two years after the Opening Date, the Master Franchisee must meet the minimum monthly gross revenue requirement of \$100,000.00. This means that beginning with the third year after the Opening Date (i.e. 25<sup>th</sup> calendar month after the Opening Date) the Master Franchisee must generate not less than \$100,000.00 in monthly gross revenues on an annual basis. In addition to generating the Minimum Monthly Revenues, the Master Franchisee’s monthly gross revenues must increase each year beginning with the third year after the Opening Date, all as a condition of the continuation of your franchise. If you do not meet the minimum growth obligations, then SBS, at its sole discretion, has the following options:

(A) SBS may require you and your key employees, to attend remedial training at SBS' principal place of business or other location selected by SBS, and at your sole expense.

(B) SBS may cancel the exclusivity right (i.e. the exclusive right to acquire customers and sell unit franchises in your territory) granted in Section II of the Master Franchise Agreement; and SBS may from that point forward acquire contracts and accounts, sell additional master franchises as well as unit franchises within your licensed territory (who may then, in turn, directly compete with you).

Beginning on the first day of the third year, and at all times from that point forward, you must have at least 50 operating and active (i.e. not in default) unit franchises within the territory licensed to you under the Master Franchise Agreement. Meeting this minimum unit franchise requirement is a condition to the continuation of your Master Franchise.

Master Franchisee may not solicit or accept sales for the establishment of Unit Franchises or locations outside of the territory. However, you are not prohibited from using normal channels of advertising or marketing unless the marketing amounts to a direct solicitation of customers or prospective unit franchisees outside of the Territory.

Nothing in this Item 12 is intended to be a financial performance representation.

### **ITEM 13 TRADEMARKS**

SBS grants you the right to operate the Master Franchise under the names "Stratus" and "Stratus Building Solutions." Subject to SBS' rules and regulations you may also use names and trademarks that we develop or design in the future. By "trademark" we mean trade names, trademarks, service marks and logos used to identify your Master Franchise. (See Section XV of the Master Franchise Agreement.)

SBS has registered the following trademark below on the United States Patent & Trademark Office Principal Register:

"STRATUS BUILDING SOLUTIONS"  
Registration Number: 3,230,289  
Registration Date: April 17, 2007

There is no pending infringement, opposition or cancellation nor any pending material litigation involving the above mark.

In addition, SBS owns and has applied for registration of the following trademarks:

Trademark	Application Number	Application Date	Status
<b>STRATUS</b>	App No. 87361185 App No. 87361220	March 7, 2017	Pending
 <b>STRATUS (&amp; Design)</b>	App No. 87361478 App No. 87361453	March 7, 2017	Pending

SBS does not currently have a federal registration for the trademarks in the table above. Therefore, these trademarks do not have as many legal benefits and rights as a federally registered trademark. If SBS's

right to use these trademarks is challenged, you may have to change to an alternative trademark, which may increase your expenses.

There are no agreements which limit SBS' right to use or license the use of its trademarks.

SBS does not know of any infringing uses that could materially affect your use of its trademarks.

You are licensed to use SBS' names and trademarks subject to its rules and regulations. You cannot use any of SBS' names or trademarks as part of your corporate name or with modifying words, designs or symbols except for those which we license to you. You may not use SBS' registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by SBS. You must modify or discontinue the use of a trademark if SBS modifies or discontinues it. In the event your license to use the "Stratus" marks is terminated, cancelled, or not renewed by us, you must immediately cease use of the "Stratus" name and marks, and Unit Franchisees may also be required to immediately cease use of the "Stratus" name and marks.

You must notify SBS immediately when you learn about an infringement of or challenge to your use of SBS' trademark and SBS will take the action it thinks appropriate. SBS has the right to control any administrative proceeding or litigation involving a trademark licensed by SBS to you. While SBS makes no warranty, expressed or implied as to the use, validity or enforceability of the marks, SBS is obligated under the Master Franchise Agreement to take action as may be necessary to protect and defend Master Franchisee against any third party claims of infringement and unfair competition arising out of the Master Franchisee's authorized use of the SBS trademark, and SBS is obligated under the Master Franchise Agreement to indemnify Master Franchisee from any losses or harm resulting from such claims. You must not directly or indirectly contest SBS' right to its trademarks, trade secrets or business techniques that are part of our business.

SBS knows of no superior prior rights or infringing uses that could materially affect the franchisee's use of the principal trademarks in the state where the franchised business will be located. There are no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state trademark administrator or court. There are no infringement, opposition, or cancellation proceedings in which SBS unsuccessfully sought to prevent registration of a trademark in order to protect a trademark licensed by SBS.

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

### **Patents and Copyrights.**

You do not receive the right to use an item covered by a patent or copyright, but you can use the proprietary information in our operations manual. The manual(s) is described in Item 11 of this disclosure document. The copyrights and information are proprietary. Item 11 of this disclosure document describes limitations on the use of this manual by you and your employees. You must also promptly tell SBS when you learn about unauthorized use of this manual and any proprietary information. SBS is not obligated to take any action but will respond to this information, as it believes appropriate.

SBS holds no patents and has not registered any copyrights with the United States Copyright Office. However, SBS claims copyrights on certain forms, advertisements, promotional materials and other written materials. SBS also claims copyrights and other proprietary rights in the Operating Manuals listed on Exhibit B to this disclosure document.

There are no agreements currently in effect which significantly limit your right to use any of SBS' copyrights. Also, to our knowledge, there are no currently effective determinations of the USPTO, the U.S. Copyright Office (Library of Congress) or any court pertaining to or affecting any of SBS' copyrights discussed above. As of the date of this disclosure document, SBS is unaware of any infringing uses of or superior previous rights to any of SBS' copyrights which could materially affect your use of them in any state.

SBS' and your obligations to protect your rights to use the SBS copyrights are the same as the obligations for Trademarks described in Item 13 of this disclosure document.

### **Confidential Information.**

You may never – during the Initial Term, any Renewal Term, or after the Master Franchise Agreement expires or is terminated – reveal any of our confidential information to another person or use it for any other person or business. You may not copy any of our confidential information or give it to a third party except as we authorize. SBS' confidential information will include trade secrets, information, ideas, research, methods, manuals, procedures, systems, improvements, and copyrighted and other materials including educational or training materials, fee and Unit Franchise records, and the Operations Manual, owned or developed by or licensed to SBS and the goodwill associated with them. Each person that is key to the Master Franchise must sign our Non-Competition Agreement, the form of which is an exhibit to the Master Franchise Agreement.

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

You are required to participate in the direct operation of the business. SBS believes that only a person with an equity interest can adequately ensure that the standards of quality and competence established by SBS are being maintained. The terms of the Master Franchise Agreement require that you are directly involved in the day to day operations of the business either through your full time participation or by the management of a full time Regional Director. If you own more than one Master Franchise, you must have a Regional Director at each individual location. Your Regional Director must have successfully completed our training program. Please see Item 11 of this disclosure document for more information pertaining to the Stratus Master Franchisee training program. Either you or your Regional Director must permanently reside within your territory at all times.

If SBS, after using standards and procedures applied on a uniform basis throughout the system, finds that a Regional Director is not properly performing his or her duties, we will advise you in writing and you must immediately take corrective steps to remedy the situation. If you do not correct the situation, we may require you to replace the Regional Director within 30 days of our written notice to you. Within 30 days of termination, you must appoint a successor and that person must attend the next available training session. (See Section VI(B) of the Master Franchise Agreement.)

All partners, owners and shareholders of Franchisee will be listed on the signature pages of the Master Franchise Agreement and are obligated to sign the Master Franchise Agreement. As signers of the Master Franchise Agreement as individuals, all partners, owners and shareholders will be obligated to personally guaranty the performance of all obligations of the Master Franchise Agreement and payments to us. They will be required to comply with all confidentiality provisions of the Master Franchise Agreement and maintain confidential information. They will be required to comply with all non-competition provisions and not engage, participate or have an interest in or be a direct of, or in any way profit from any other business that offers or sells products or services which are the same or similar to the products and services

offered by Stratus during the term of the Master Franchise Agreement or for a period of two years within 100 miles of the territories or any Stratus Master Franchisee or Unit Franchisee after termination of the Master Franchise Agreement. They will be obligated to sign any documents required by us relating to the operation and ownership of the Stratus Master Franchise business.

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

You are limited in the operation of the franchise business to the sale of Stratus Unit Franchises within your territory. You are required to provide continuing oversight of your Unit Franchisees who offer to the public complete cleaning and/or maintenance related services. No other limits or restrictions are placed on the type or quantity of customers to whom Stratus Unit Franchises may service except for restrictions contained within the Master Franchise Agreement. (See Section VII of the Master Franchise Agreement.)

You, as a Master Franchisee, must comply with all laws and regulations governing the sale of franchises including, without limitation, the proper and timely delivery of a disclosure document, unit franchise agreement and other related documents (“Unit Franchise Compliance Documents”). If a registration is required in the state where your territory is located, then in addition to applicable federal laws and regulations, you must file all necessary documents and disclosures with the appropriate state agency before selling, advertising or offering for sale any franchise within the territory. A list of state agencies and the appropriate contact information is included as Exhibit A of this disclosure document.

SBS is not responsible for preparing or registering any Unit Franchise Compliance Documents or the accuracy of any such documents as distributed or filed for registration. SBS will offer sample documents for compliance, but makes no representation or warranty of those documents’ compliance with federal, state or local laws and regulations, and you are urged to seek the assistance of independent attorneys and counsel to review and complete such documents.

The form of all Unit Franchise Compliance Documents must be submitted to, and approved by, SBS before your use of them. Similarly, any changes, amendments or revisions to any of the Unit Franchise Documents must be approved by SBS before your use of them. All Unit Franchise Compliance Documents must include a provision stating that SBS is a third-party beneficiary of the Unit Franchise Compliance Documents with rights to assume and enforce them should you fail to do so.

You may not operate any other franchise business without first obtaining the express written consent of either the CEO or President/COO of Stratus.

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

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

**THE FRANCHISE RELATIONSHIP**

	<b>Provision</b>	<b>Section In Franchise Agreement</b>	<b>Summary</b>
<b>a.</b>	Length of the franchise term	Section III	Term is 15 years
<b>b.</b>	Renewal or extension of the term	Section III	If you are in good standing you may renew the master franchise.
<b>c.</b>	Requirements for you to renew or extend	Section III	If you meet all conditions and with both your and Stratus consents. Sign new agreement, at least 6 months before the end of term but not more than 12 months. You may be asked to sign a contract with materially different terms and conditions than their original contract as the then-current Master Franchise Agreement be signed to renew or continue the franchise relationship.
<b>d.</b>	Termination by you	Section XVI	Master Franchise Agreement contains no provisions for termination by you. Certain rights may exist under state contract law.
<b>e.</b>	Termination by Stratus without cause	Not Applicable	Not Applicable.
<b>f.</b>	Termination by Stratus with cause	Section XVI	Stratus can terminate only for “good cause” which means failure by you to substantially comply with the material and reasonable franchise requirements imposed by Stratus.
<b>g.</b>	“Cause” defined – curable defaults	Section XVI	All defaults other than those listed in Section h below. Stratus may only terminate if it (1) gives you a written notice of default explaining the default and reason(s) for termination at least 90 days in advance of termination, and (2) you have not cured the default or corrected the reasons stated for termination in the notice of default within 60 days from receiving said notice.
<b>h.</b>	“Cause” defined – non- curable defaults	Section XVI	Non-curable defaults: you voluntarily abandon your Master Franchise business; you or any owner of your master franchise business is convicted of any crime or offense directly related to the business conducted under the Master Franchise Agreement; or you fail to cure a default under the Master Franchise Agreement which materially impairs the good will associated with the Stratus’ trade name, trademark, service mark, logotype or other commercial symbol after you have received written notice to cure the default at least 24 hours in advance.
<b>i.</b>	Your obligations on termination / non-renewal	Section XVII	Obligations on termination include complete de-identification, no divulging of trade secrets, return of all Manuals and software, payment of amounts due, and assigning phone numbers.
<b>j.</b>	Assignment of contract by Stratus	Section VIII	No restriction on Stratus’ right to assign

<b>k.</b>	“Transfer” by you defined	Section VIII	Change in majority ownership, transfer of substantially all of the assets of your Master Franchise business or transfer of a majority of the ownership (e.g. stock or other units of ownership) of the entity owing the Master Franchise business.
<b>l.</b>	Stratus’ approval of transfer by you	Section VIII	Stratus has the right to approve all transfers but will not unreasonably withhold approval
<b>m.</b>	Conditions for approval of transfer	Section VIII	Your transferee meets all criteria of character, experience, financial responsibility, and other standards applicable to new franchisees. Transfer fee paid, purchase agreement approved, training arranged, and current agreement signed by new franchisee. Stratus reserves the right to conduct a business review.
<b>n.</b>	Stratus’ right of first refusal to acquire your business	Section IX	Stratus has the first right to purchase or to match any offer for your Master Franchise business if you offer it for sale.
<b>o.</b>	Stratus’ option to purchase your business	Section VIII	Only if you offer your Master Franchise business for sale; your death or disability
<b>p.</b>	Death or disability of franchisee	Section VIII	The Master Franchise business must be assigned by estate to approved buyer within 6 months. Heirs, other than pre-approved spouse or adult child/children, must qualify.
<b>q.</b>	Non-competition covenants during the term of the franchise	Section XII	You may not engage, participate, have an interest in, be a director of, or in any way profit from any other business that offers or sells products or services which are the same as or similar to the products and services offered by Stratus.
<b>r.</b>	Non-Competition covenants after the franchise is terminated or expired	Section XII	No competing business for 2 years within 100 miles of any of the territories of any Stratus Master Franchisee or Unit Franchisee.
<b>s.</b>	Modification of agreement	Section XIX	Only with mutual agreement.
<b>t.</b>	Integration/ merger clause	Section XIX	Only the terms of the franchise agreement and other related written agreements are binding (subject to the laws in your state, to the extent not superseded by state law, and regulations). Any verbal provisions not contained in the Master Franchise Agreement may not be enforceable. Nothing in the Master Franchise Agreement is intended to disclaim the representations made by Stratus in this franchise disclosure document.
<b>u.</b>	Dispute resolution mediation	Section XVIII	The parties agree to attempt to settle disputes through good faith negotiations in the first instance. If negotiations fail, disputes arising under the Master Franchise Agreement must be submitted to non-binding mediation as a condition to commencing litigation.
<b>v.</b>	Choice of Forum	Section XVII	Litigation must be conducted in the state in which your franchise is located, unless local state law supersedes this provision.
<b>w.</b>	Choice of Law	Section XVII	The laws of the state in which your franchise is located, unless local state law supersedes this provision.

Please also see the state addenda to the Master Franchise Agreement and this disclosure document included as Exhibits G & H of this disclosure document.

## **ITEM 18 PUBLIC FIGURES**

Stratus does not use any public figure to promote our franchise, although you are not restricted from doing so.

## **ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS**

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

The chart on the next page shows historical financial performance representations about the franchise system's existing master franchise outlets. The chart shows gross revenue, gross profit, and gross profit percentage, as reported by the master franchisees for 20 master franchise regions. The periods are January through December 2015 and 2016. To protect the privacy of each Master Franchisee, the regions are described by numbers.

To assist you in reviewing the chart, the following definitions are provided. Gross Revenue represents the actual amount of dollars received by the master franchisee from client revenue prior to payouts to the unit franchisees and any other subcontractors within the region. Gross Profit is the amount retained by the master franchisee after payouts to the unit franchisees. The Gross Profit Percentage is the percentage of Gross Profit to Gross Revenue.

**The numbers in the chart are the actual numbers reported by master franchises for the periods shown. Your individual results may differ. There is no assurance that you will sell as much.**

This Item 19 does not include costs of sales, operating expenses, or other costs or expenses that must be deducted from gross revenue or gross sales figures to obtain net income or profit.

You are urged to consult with appropriate financial, business and legal advisors in connection with the use of any of the information contained in this section.

Written substantiation of the representation will be made available to the prospective franchisee upon reasonable request.

Other than as stated above, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any financial performance information or projections of your future income other than as described in this item, you should report it to the franchisor's management by contacting the CEO Afshin Cangarlu, c/o SBS Franchising, Inc., 10530 Victory Blvd., North Hollywood, CA 91606, (888) 479-7575, the Federal Trade Commission and the appropriate state regulatory agencies.

	Jan – Dec 2015				Jan – Dec 2016		
Regions	Gross Revenue	Gross Profit	Gross Profit %		Gross Revenue	Gross Profit	Gross Profit %
1	\$1,189,135	\$463,763	39%		\$1,503,552	\$526,243	35%
2	\$4,559,160	\$1,458,931	32%		\$5,085,252	\$1,728,986	34%
3	\$872,081	\$313,949	36%		\$1,084,980	\$325,494	30%
4	\$1,398,659	\$503,517	36%		\$1,627,020	\$715,889	44%
5	\$4,661,495	\$1,445,063	31%		\$5,307,888	\$1,645,445	31%
6	\$1,342,882	\$389,436	29%		\$1,321,728	\$343,649	26%
7	\$812,531	\$227,509	28%		\$1,033,020	\$340,897	33%
8	\$2,185,784	\$721,309	33%		\$2,734,716	\$1,011,845	37%
9	\$2,903,588	\$900,112	31%		\$3,426,696	\$1,130,810	33%
10	\$2,111,294	\$654,501	31%		\$2,585,028	\$749,658	29%
11	\$2,596,018	\$674,965	26%		\$2,635,608	\$764,326	29%
12	\$1,727,171	\$397,249	23%		\$1,854,252	\$574,818	31%
13	\$2,046,299	\$695,742	34%		\$2,258,112	\$767,758	34%
14	\$548,054	\$147,975	27%		\$803,244	\$257,038	32%
15	\$2,204,338	\$573,128	26%		\$2,461,332	\$566,106	23%
16	\$1,299,648	\$376,898	29%		\$1,906,812	\$686,452	36%
17	4,874,154	\$1,949,662	40%		\$5,168,784	\$2,067,514	40%
18	\$2,583,809	\$775,143	30%		\$2,582,400	\$878,016	34%
19	\$1,659,487	\$497,846	30%		\$1,968,180	\$688,863	35%
20	\$3,609,816	1,046,847	29%		\$4,369,980	\$1,267,294	29%

**ITEM 20  
OUTLETS AND FRANCHISEE INFORMATION**

**Table No. 1  
System-wide Outlet Summary  
For Years 2014 to 2016**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
<b>Franchised</b>	2014	28	25	-3
	2015	25	25	0
	2016	25	27	+2
<b>Company-Owned</b>	2014	0	0	0
	2015	0	0	0
	2016	0	0	0
<b>Total Outlets</b>	2014	28	25	-3
	2015	25	25	0
	2016	25	27	+2

\*SBS Franchising, Inc. acquired the assets of Stratus Franchising, LLC in January 2015, including 25 Master Franchise Agreements. All outlets reflected prior to 2015 were offered and sold by our Predecessor.

**Table No. 2  
Transfers of Outlets from  
Franchisees to New Owners (other than Franchisor)  
For Years 2014 to 2016**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
<b>California</b>	2014	1
	2015	0
	2016	0
<b>Delaware</b>	2014	0
	2015	1
	2016	0
<b>Texas</b>	2014	0
	2015	1
	2016	0
<b>TOTAL</b>	2014	1
	2015	2
	2016	0

**Table No. 3  
Status of Franchisee-Owned Outlets  
For Years 2014 to 2016**

<b>State</b>	<b>Year</b>	<b>Outlets at Start of Year</b>	<b>Outlets Opened</b>	<b>Terminations</b>	<b>Non-Renewals</b>	<b>Required by Franchisor</b>	<b>Ceased Operations-Other Reasons</b>	<b>Outlets at End of the Year</b>
<b>Arizona</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>California</b>	2014	6	0	0	0	0	0	6
	2015	6	0	0	0	0	0	6
	2016	6	1	0	0	0	0	7
<b>Colorado</b>	2014	2	0	0	0	0	0	2
	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
<b>Delaware</b>	2014	1	0	0	0	0	0	1
	2015	1	1	1	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Florida</b>	2014	1	0	0	0	0	0	1
	2015	1	0	1	0	0	0	0
	2016	0	0	0	0	0	0	0
<b>Hawaii</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Iowa</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Kansas</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Louisiana</b>	2014	0	0	0	0	0	0	0
	2015	0	0	0	0	0	0	0
	2016	0	1	0	0	0	0	1
<b>Nebraska</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>New Jersey</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>New York</b>	2014	2	0	0	0	0	1	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>North Carolina</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1

<b>Ohio</b>	2014	2	0	0	0	0	0	2
	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
<b>Pennsylvania</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>South Carolina</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Tennessee</b>	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>Texas</b>	2014	2	0	0	0	0	1	1
	2015	1	1	0	0	0	0	2
	2016	2	0	0	0	0	0	2
<b>Utah</b>	2014	2	0	0	0	0	1	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
<b>TOTALS</b>	2014	<b>28</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>25</b>
	2015	<b>25</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25</b>
	2016	<b>25</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27</b>

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

**Table No. 4**  
**Status of Company-Owned Outlets**  
**For Years 2014 to 2016\***

<b>State</b>	<b>Year</b>	<b>Outlets at Start of Year</b>	<b>Outlets Opened</b>	<b>Outlets Reacquired From (Master) Franchisee</b>	<b>Outlets Closed</b>	<b>Outlets Sold To (Master) Franchisee</b>	<b>Outlets at End of the Year</b>
<b>Totals</b>	2014	0	0	0	0	0	0
	2015	0	0	0	0	0	0
	2016	0	0	0	0	0	0

\*No company owned outlets have been opened since the acquisition of the assets of Stratus Franchising, LLC in January 2015. Some Affiliates listed in Item 2 are Master Franchisees. The outlets owned by those Affiliates are listed in Table No. 3 as their outlets are not company owned outlets.

**Table No 5**  
**Projected Openings as of March 1, 2016**

<b>State</b>	<b>Franchise Agreements Signed, But Outlet Not Opened</b>	<b>Projected New Franchised Outlet in the Next Fiscal Year</b>	<b>Projected New Company-Owned Outlets in the Next Fiscal Year</b>
Indiana	0	1	1
Georgia	0	1	1
Florida	0	1	1
Washington	0	1	1
<b>Totals</b>	0	4	4

During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experience as a franchisee in our franchise system.

A list of current and former franchisees can be found in Exhibit F to this Franchise Disclosure Document.

No trademark specific franchisee association exists.

**ITEM 21**  
**FINANCIAL STATEMENTS**

Included in this disclosure document as Exhibit C are our audited financials for the year 2015 and 2016 dated March 27, 2017. **SBS Franchising, Inc. has not been in business for three years or more and cannot include all financial statements required in the FTC Franchise Rule paragraphs (u)(1)(i) and (ii).**

**ITEM 22**  
**CONTRACTS**

This disclosure document contains the Master Franchise Agreement and its exhibits, including a non-competition agreement. Also, we have enclosed a sample copy of the Unit Franchise Agreement as Exhibit I.

**ITEM 23**  
**RECEIPT**

Two Receipt Pages are attached as the last pages of this document. You should sign one to keep for your records and sign the other receipt and return it to SBS Franchising, Inc., 10530 Victory Blvd., North Hollywood, CA 91606, (888) 479-7575.

**EXHIBIT A  
STATE ADMINISTRATORS  
FRANCHISE REGISTRATION STATES AUTHORITIES**

<p><b>CALIFORNIA</b> Department of Business Oversight 320 West 4th Street, Suite 750 Los Angeles, California 90013 (213) 576-7500</p> <p><b>Agent for Service of Process:</b> Commissioner – Department of Business Oversight 1515 K Street, Suite 200 Sacramento, California 95814</p>	<p><b>MARYLAND</b> Maryland Securities Division Franchise Examiner 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-7042</p> <p><b>Agent for Consent of Service of Process:</b> Commissioner of the Division of Securities 200 Saint Paul Place Baltimore, Maryland 21202-2020</p>	<p><b>New York</b> Office of the New York State Attorney General Investor Protection Bureau Franchise Section 120 Broadway, 23rd Floor New York, NY 10271-0332 (212) 416-8236 Phone (212) 416-6042 Fax</p> <p><b>Agent for Service of Process:</b> New York Secretary of State New York Department of State One Commerce Plaza, 99 Washington Avenue, 6th Floor Albany, NY 12231-0001 (518) 473-2492</p>	<p><b>South Dakota</b> Department of Labor and Regulation Division of Securities 124 S. Euclid Ave., Suite 104 Pierre, South Dakota 57501 (605) 773-4823</p> <p><b>Agent for Service of Process:</b> Director of the Division of Securities Department of Labor and Regulation 124 S. Euclid Ave., Suite 104 Pierre, South Dakota 57501</p>
<p><b>Hawaii</b> Department of Commerce &amp; Consumer Affairs Commissioner of Securities of the State of Hawaii Business Registration Division 335 Merchant Street, Room 203 Honolulu, HI 96813 (808) 586-2722</p> <p><b>Agent for Service of Process:</b> Commissioner of Securities State of Hawaii 335 Merchant Street, Room 203 Honolulu, Hawaii 96813</p>	<p><b>Michigan</b> Michigan Attorney General's Office Consumer Protection Division Attn: Franchise Section 525 W. Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, MI 48933 (517) 373-7117</p> <p><b>Agent for Service of Process:</b> Michigan Department of Commerce, Corporations</p>	<p><b>North Dakota</b> North Dakota Securities Department 600 East Boulevard Avenue State Capitol – 5th Floor Dept 414 Bismarck, ND 58505-0510 (701) 328-4712</p> <p><b>Agent for Service of Process:</b> Securities Commissioner North Dakota Securities Department 600 East Boulevard Avenue State Capitol – 5th Floor Dept 414 Bismarck, ND 58505-0510 (701) 328-4712</p>	<p><b>Virginia</b> State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051</p> <p><b>Agent For Service of Process:</b> Clerk, State Corporation Commission P.O. Box 1197 Richmond, Virginia 23219</p>
<p><b>Illinois</b> Office of Attorney General Franchise Bureau 500 South Second Street Springfield, Illinois 62706 (217) 782-4436</p> <p><b>Agent for Service of Process:</b> Illinois Attorney General 500 South Second Street Springfield, Illinois 62706</p>	<p><b>Minnesota</b> Commissioner of Commerce Minnesota Department of Commerce 85 Seventh Place East, Suite 500 St. Paul, Minnesota 55101-2198 (651) 296-6328</p> <p><b>Agent for Service of Process:</b> Commissioner of Commerce 85 Seventh Place East St. Paul, Minnesota 55101</p>	<p><b>Oregon</b> Department of Insurance &amp; Finance Corporate Securities Section Labor and Industries Building Salem, OR 97310 (503) 378-4387</p>	<p><b>Washington</b> Administrator Department of Financial Institution Securities Division P.O. Box 9033 Olympia, Washington 98507-9033 (360) 902-8760</p> <p><b>Agent for Service of Process:</b> Administrator of Securities Department of Financial Institutions General Administration Building Securities Division –3rd Floor West 210 – 11th Avenue, SW Olympia, Washington 98504</p>
<p><b>Indiana</b> Franchise Section Indiana Securities Division Room E-111 302 West Washington Street Indianapolis, Indiana 46204 (317) 232-6681</p> <p><b>Agent for Service of Process:</b> Secretary of State 201 State House Indianapolis, IN 46204</p>	<p><b>Missouri</b></p> <p><b>Agent for Service of Process:</b> 1976 Innerbelt Business Center Drive St. Louis, MO 63114 (314) 731-2000</p>	<p><b>Rhode Island</b> Division of Business Regulation Division of Securities 1511 Pontiac Avenue John O. Pastore Complex-69-1 Cranston, Rhode Island 02920-4407 (401) 462-9527</p> <p><b>Agent for Service of Process:</b> Director of Business Regulation 1511 Pontiac Avenue John O. Pastore Complex-69-1 Cranston, Rhode Island 02920-4407</p>	<p><b>Wisconsin</b> Franchise Administrator Division of Securities Department of Financial Institutions P.O. Box 1768 Madison, Wisconsin 53701 (608) 266-2801</p> <p><b>Agent for Service of Process:</b> Commissioner of Securities Office of the Commissioner of Securities 201 W. Washington Ave., 3rd Floor Madison, Wisconsin 53703</p>

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AUDITED FINANCIAL STATEMENTS

**SBS FRANCHISING, INC**

AUDITED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

December 31, 2016  
and  
December 31, 2015

INDEPENDENT AUDITORS' REPORT

SBS FRANCHISING, INC.  
North Hollywood, California

We have audited the accompanying financial statements of SBS Franchising, Inc., (the "Company"), which comprise the balance sheet as of December 31, 2016 and 2015, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

**Management's Responsibilities**

Management is responsible for the preparation and fair presentation of these 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 the 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SBS Franchising, Inc. as of December 31, 2015, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Sassan Heydari, CPA*

Los Angeles, California  
March 27, 2017

**SBS Franchising, Inc.**  
**Balance Sheet**

<b>ASSETS</b>			
	<u>December 31, 2016</u>		<u>December 31, 2015</u>
Current Assets			
Cash	\$ 121,864	\$	62,542
Accounts Receivable	210,687		152,704
Prepaid Expenses	5,382		
Notes Receivable (Current Portion)	61,046		4,125
Total Current Assets	<u>398,979</u>		<u>219,371</u>
Machinery & Equipment	5,306		-
Accumulated Depreciation	(3,184)		-
Goodwill	100,000		100,000
Notes Receivable (Non-Current Portion)	94,375		14,900
<b>Total Assets</b>	<b><u>\$ 595,476</u></b>	<b><u>\$</u></b>	<b><u>334,271</u></b>

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts Payable & Accrued Expenses	\$ 50,417	\$	26,544
Line of Credit with Financial Institutions	30,680		8,590
Insurance Reserve	100,326		-
Total Current Liabilities	<u>181,424</u>		<u>35,134</u>
Loan From Shareholders	-		140,125
Total Liabilities	<u>181,424</u>		<u>175,259</u>
Stockholders' Equity			
Common Stock, 10,000 shares authorized <i>shares issued and outstanding at \$0.00001 par value</i>	0		0
Additional Paid-In Capital	315,000		315,000
Retained Earnings	99,052		(155,988)
Total Stockholders' Equity	<u>414,052</u>		<u>159,012</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 595,476</u></b>	<b><u>\$</u></b>	<b><u>334,271</u></b>

**SBS Franchising, Inc.**  
**Statement of Income**

	Year Ended December 31st, 2016	Year Ended December 31st, 2015
Revenue		
Royalties	\$ 1,550,770	\$ 1,207,528
Call Center Revenue	696,628	331,769
Franchise License & Transfer fee	160,063	80,000
Consulting	-	9,381
Insurance Admin	13,873	-
Cleaning Supply Sales	2,094	1,735
<b>Total Revenue</b>	<b>2,423,427</b>	<b>1,630,414</b>
Operating Expenses		
Employee Compensation and Benefits	1,109,455	537,632
General and Administrative	188,667	97,762
Depreciation & Amortization	3,184	-
Bad Debts	-	9,652
Call Center Expense	-	191,185
Legal & Professional Fees	285,232	196,799
Marketing & Advertising	179,651	87,298
Software License Fee	311,656	234,947
Supplies & Materials	2,770	2,210
Repair & Maintenance	15,643	-
Charitable Contribution	100	-
Occupancy	84,000	33,000
<b>Total Expenses</b>	<b>2,180,358</b>	<b>1,390,485</b>
<b>Operating Income (Loss)</b>	<b>243,069</b>	<b>239,928</b>
Other income (Expenses)		
Master Franchise Termination Fee	65,000	-
Interest Earned	1,458	-
Franchise License - Canada	235,662	-
Interest Expense	(26)	(5,125)
Pre-acquisition Legal Fees	-	(114,992)
Pre-acquisition Consulting Fees	-	(275,000)
Penalties & Settlements	(112)	-
<b>Income (Loss) Before Income Tax Expense</b>	<b>545,052</b>	<b>(155,188)</b>
Income Tax Expense	(5,012)	(800)
<b>Net Income (Loss)</b>	<b>\$ 540,040</b>	<b>\$ (155,988)</b>

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

**SBS Franchising, Inc.**  
**Statement of Changes in Stockholders' Equity**

	Common Stock Issued		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 28, 2015	-	\$ -	-	\$ -	-
Shares Issued to Shareholders	10,000		375,000		375,000
Shareholder Distributions			(60,000)		(60,000)
Net Income (Loss)				(155,988)	(155,988)
Balance, December 31, 2015	10,000	-	315,000	(155,988)	159,012
Shareholder Distributions				(285,000)	(285,000)
Net Income (Loss)				540,040	540,040
Balance, December 31, 2016	<b>10,000</b>	<b>\$ -</b>	<b>315,000</b>	<b>\$ 99,052</b>	<b>\$ 414,052</b>

**SBS Franchising, Inc.**  
**Statement of Cash Flows**

	Year Ended December 31st, 2016	Year Ended December 31st, 2015
Cash Flow from Operating Activities:		
Net Income (Loss)	\$ 540,040	\$ (155,988)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(57,983)	(152,704)
Prepaid Expenses	(5,382)	-
Accumulated Depreciation	3,184	-
Accounts Payable and Accrued Expenses	45,964	35,134
<i>Net cash (used) by operating activities</i>	525,823	(273,558)
Cash Flows from Investment Activities:		
Acquisition of Intellectual Property Rights	-	(100,000)
Fixed Assets Purchases	(5,306)	-
Insurance Reserve	100,326	-
Changes in Notes Receivable	(136,396)	(19,025)
<i>Net cash (used) by investing activities</i>	(41,376)	(119,025)
FINANCING ACTIVITIES		
Change in Loans Provided by Shareholders	(140,125)	140,125
Shareholder Distributions	(285,000)	(60,000)
Additional Paid-In Capital	-	375,000
<i>Net cash provided by financing activities</i>	(425,125)	455,125
<i>Net cash increase (decrease) for period</i>	59,322	62,542
<i>Cash at Beginning of the Year</i>	\$ 62,542	\$ -
<i>Cash at End of the Year</i>	\$ 121,864	\$ 62,542

**SBS FRANCHISING, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

1. Summary of Significant Accounting Policies

Nature of business - SBS Franchising, Inc. (the "Company") was formed under the General Corporation Law of the state of Delaware on January 13, 2015. The Company is authorized to issue 10,000 shares of common stock, all of which have been issued at \$0.00001 per share (the "Common Stock"). The Company is in the business of franchising a commercial cleaning business and, in that regard, granting to independent investors the right to operate master franchises of the Company's commercial cleaning and maintenance service business, and granting licenses to such master franchisees to use the methods, marks, procedures and products developed by the Company.

Basis of Accounting - The Company uses the accrual basis of accounting in recording franchise revenue and expenses related to the sale of franchises and collection of royalties. Under this method, revenues are recognized when they are earned rather than when they are collected, and expenses are recognized when they are incurred rather than when they are paid.

Use of estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include bank deposits and short-term investments with original maturities of three months or less at the date of purchase.

Concentrations of credit risk - Financial instruments that could potentially subject the Company to concentration of credit risk include cash deposited in accounts in excess of federally insured limits, and accounts receivable.

*See accompanying independent auditors' report*

Allowance for accounts and notes receivable - The Company uses the accrual method of accounting and evaluates the collectability of its accounts and notes receivable based on historical data and anticipated effects of economic and other business trends that may have a bearing on collectability. As of December 31, 2016, the Company recorded \$214,937 for allowance for uncollectable accounts or notes receivable.

Fair value of financial instruments - The carrying amounts of cash, cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturities of these instruments.

Income taxes - Effective January 13, 2015 the Company elected to be taxed under Section 1361 of the Internal Revenue Code as an "S" Corporation. Under these provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the shareholders are individually liable for federal income taxes based on the Company's taxable income. The election is also valid for state income tax reporting; however, a provision for state income taxes is required based on a 1.5% tax rate.

Advertising and marketing costs - The Company expenses advertising and marketing expenses as incurred.

Franchise license fees, royalty revenue and notes receivable - The Company receives cash and notes receivable as consideration upon the issuance of non-cancelable business licensing contracts with its cleaning service master licensees. The Company recognizes revenue as the licenses are issued and cash is received or notes receivable are signed and become effective. The Company receives royalties from its master franchise licensees. The Company also provides marketing services for its master franchise licensees, including the operation of a call center in Denver, Colorado.

## 2. Acquisition of Goodwill

On or about January 28, 2015, the Company entered into an Asset Purchase Agreement with Stratus Franchising, LLC, a Missouri limited liability company, whereby, the Company acquired all of seller's right, title and interest in and to all franchise Master Agreements and all domestic intellectual property rights owned by seller, all of which have been recorded as Goodwill. The Goodwill is evaluated for impairment annually or when indicators of a potential impairment are present. Pursuant to the consummation of this acquisition, the

*See accompanying independent auditors' report*

Company incurred acquisition and startup costs, including consulting and legal fees, which have been expensed.

3. Loans from Shareholders

The Company's shareholders provide operating cash through loans from the shareholders. The loans are interest bearing at the rate of 5% per year and are payable as the Company has sufficient operating cash, as determined by the shareholders.

4. Employee Salaries and Benefits

The Company offers a matching contributory retirement plan to the employees that have been with the Company for more than one year.

5. Commitments and Contingencies

**North Hollywood Office Lease**

On February 1, 2015, the Company entered into a non-cancelable 5 year operating lease for its primary facilities in North Hollywood, California, which expires in February 2020. The building is owned by RSMS Ventures, LLC, which is wholly owned by two of the shareholders of the Company. The lease requires the Company to pay \$3,000 per month during the life of the lease. Future minimum lease payments under this lease are as follows:

2017	\$ 36,000
2018	36,000
2019	36,000
2020	<u>6,000</u>
Total	<u>\$ 114,000</u>

### Denver Office Lease

On August 1, 2015, the Company entered into a non-cancelable 5 year sub-lease for its Denver office facilities in Denver, Colorado, with CRS Holdings, LLC, an entity owned by one of the shareholders of the Company. The sub-lease expires in August 2020. Future minimum lease payments under this lease are as follows:

2017	\$ 52,075
2018	55,500
2019	59,350
2020	<u>36,050</u>
Total	<u>\$ 202,975</u>

Management asserts that as of the date of the audit report there are no contingent or other liabilities that have not been recorded or disclosed in these financial statements or accompanying notes and that there is no pending or threatened litigation against the Company, its management or its owners.

### 6. Provision for Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and the state of California. While the Company is not subject to U.S. federal tax, it is subject to California state tax of 1.5% of its net income, with a minimum \$800 annual tax.

The Company follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Company recognizes no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2016 for which the ultimate deductibility is uncertain. The Company recognizes interest accrued related to unrecognized tax benefits in interest expenses and penalties in operating expenses. No such interest or penalties were recognized during the period presented. The Company had no accrual for interest and penalties at December 31, 2016.

*See accompanying independent auditors' report*

## 7. Related Parties

The Company leases office space in North Hollywood, California, from RSMS Ventures, LLC, an entity owned by two of the Company's shareholders. The lease commenced in February 2015 at the rate of \$3,000 per month. In addition, the Company sub-leases office space in Denver, Colorado, from CRS Holdings, LLC, an entity owned by one of the shareholders of the Company. The lease commenced in August 2015 at the rate of \$4,000 per month.

The Company has a software license agreement with BRMCloud, Inc., which is owned by two of the Company's shareholders. The software is used by the Company and its master franchisees for the day to day management of their businesses. The license fee is based on the total revenues of the Company on a sliding-scale basis, ranging from 0.65% of revenues up to \$5.0 million to 0.15% of revenues above \$50 million.

Three of the Company's shareholders have ownership interest in other entities that have Master Franchise agreements with the Company.

## 8. Master Franchise Termination

The Company filed a lawsuit against Modern Industrial Services, Inc. and Pro Clean USA, Inc. owned by two previous Master Franchisees of the Company in Tampa, Florida. The case was brought against the defendants by the Company for violating the post-termination agreement requirements upon termination of their Master Franchise agreement with the Company. Both parties agreed to resolve their dispute by means of Consent Order where the defendants agreed to pay to the Company the sum of \$65,000 comprising of an upfront cash payment and monthly payments until paid in full. As of March 15, 2017 the balance was paid in full.

## 9. Canada Business Venture:

On February 16, 2016, the Company ("SBSF") and Declare Brands, Inc. ("DBI") jointly incorporated SBS Canada as a new Canadian federally incorporated corporation with its address at DBI's office in Camrose, Alberta, Canada. SBSF and DBI have a 50/50 ownership in SBS Canada. SBS Canada's plan is to operate SBSF's business model exclusively in Canada. As part of this joint venture, DBI has paid the sum of \$300,000 (in Canadian Dollars) to SBSF, which has been recorded as license fee income. SBSF shall be entitled to receive

*See accompanying independent auditors' report*

another \$300,00 (in Canadian Dollars) from DBI, conditional upon the sale of the first Master Franchisee in Canada. Upon the satisfaction of this condition, DBI has the option to pay such amount to SBSF in 48 monthly installments.

#### 10. Call Center Transition

In 2015 the Call Center operations were transferred from a third party related entity (Channen Companies, LLC) to the Company, internally. Such transition resulted in the elimination of the Call Center Expense and an increase in payroll and overhead expenses from 2015 to 2016.

#### 11. Subsequent Events

According to code FASB ASC 855-10 Subsequent Events, Management reviewed the events as of the issuable date of the review report and determined there is no recognizable subsequent events including changes in the fair value of assets and liabilities (financial and nonfinancial) after the balance sheet date but before financial statements are issued or are available to be issued.

EXHIBIT D

STRATUS BUILDING SOLUTIONS  
MASTER FRANCHISE AGREEMENT

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**EXHIBITS:**

**EXHIBIT A – NON-COMPETITION AGREEMENT**

**EXHIBIT B – SCHEDULE OF PRINCIPALS**

THIS MASTER FRANCHISE AGREEMENT between SBS Franchising, Inc a/k/a Stratus Building Solutions, a Delaware Company, (“SBS, “Stratus” or “Franchisor”), and \_\_\_\_\_, (Master Franchisee”) is effective on the date it is accepted and executed by two SBS officers (the “Effective Date”).

**I. MASTER FRANCHISEE’S INVESTIGATION & APPLICATION**

Master Franchisee and its Owners acknowledge that they have read this Agreement and the Stratus Franchise Disclosure Document for Prospective Master Franchisees and that they understand and accept the terms, conditions and covenants in this Agreement recognizing that they are necessary to:

- A. Maintain Stratus’ high standards of service to its master franchisees, unit franchisees and clients/customers; and
- B. Maintain the uniformity of those standards throughout the United States as described in our Training Program, Operations Manual and other materials we provide to you; and
- C. Protect and preserve the goodwill of SBS’ proprietary assets (e.g., trade names, trademarks, logos, etc.).

Master Franchisee further acknowledges that he has conducted an independent investigation of the business contemplated by this Agreement and recognizes that, like any other business, the nature of a janitorial business master franchise may evolve and change over time, that an investment in an Stratus Master Franchise involves business risks, and that the success of the venture is primarily dependent upon the business abilities and efforts of Master Franchisee.

Stratus expressly disclaims the making of, and Master Franchisee acknowledges that it has not received or relied upon, any guarantee, expressed or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement. Master Franchisee acknowledges that the has no knowledge of any representations by Stratus or its officers, directors, shareholders, employees or agents that are contrary to those found in this Agreement or contrary to this disclosure document or other disclosure document given to Master Franchisee pursuant to applicable law.

Master Franchisee has applied for a license to own and operate Master Franchise in an exclusive territory to be approved by the Franchisor and described below; and such application has been approved by Stratus in reliance upon all of the representations made therein including without limitation Mater Franchisee’s representation that it will actively operate and manage its Master Franchise in accordance with the terms and conditions of this Agreement.

**II. LICENSE GRANTED, TERRITORY, OFFICE & OPENING DATE**

A. License Granted – Subject to the terms and conditions described below, SBS grants to the Master Franchisee, the exclusive right to establish and operate a Stratus Building Solutions Master Franchise and a license to use the methods, marks, procedures and products developed by SBS, in the business of selling and servicing comprehensive cleaning and maintenance service franchises, as well as the sale, leasing or distribution of related supplies and equipment, in the territory described as (the “Territory”):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Principal Office Must Be Located In Territory – Master Franchisee must establish and maintain its principal office within the Territory.

C. Opening Date – Master Franchisee agrees to open the Territory for business operations no later than \_\_\_\_\_, the actual date being referred to in this Agreement as the “Opening Date”.

D. Activity Outside of Territory Prohibited – The Master Franchisee has no authority to act under this Agreement or to provide services, or grant any rights, licenses or franchises to anyone outside the Territory. Absent prior written consent from SBS, the solicitation of customers or prospective unit franchisees outside of the Territory is strictly prohibited. SBS recognizes that media advertising may reach outside the Master Franchisee’s Territory (because the Master Franchisee may have no control over broadcast area or circulation of publications), and the Master Franchisee is not prohibited from using normal channels of advertising or marketing unless the promotion is directed to customers or prospective unit franchisees outside of the Territory. SBS may insist on reparation to any neighboring Master Franchisee who is damaged by a violation of this provision, to cure the Master Franchisee’s default.

E. Office Lease & Furnishings – Master Franchisee is solely responsible for any leases of real or personal property in connection with the operation of its business, but understands that SBS must approve the Master Franchisee’s principal office location, furniture and décor to protect the Stratus Building Solutions image and reputation. Master Franchisee must, while this Agreement is in effect, maintain such office and all fixtures, furnishing, signs and equipment located thereon in good order and condition, and in conformity with the Stratus Building Solutions system image as such may be prescribed by SBS from time to time. Master Franchisee must, within reasonable time specified by SBS, make all necessary reasonable additions, alterations, repairs and replacements to the office as required by SBS, but no others without SBS’s prior written consent, including, but not limited to, periodic repainting or replacement of signs, furnishings, equipment or décor. No other business venture may operate out of the premises utilized by Master Franchisee for its office without the prior written consent of SBS. Master Franchisee must require any Unit Franchisee who leases office space outside the Unit Franchisee’s residence to fully comply with the requirements of this Section. Master Franchisee must provide a copy of its lease to SBS within ten (10) days of its execution.

### **III. TERM & RENEWAL**

A. Initial Term – The initial term of this Agreement begins on the Effective Date and ends fifteen (15) years from that date.

B. Renewal – At Master Franchisee’s option, this Agreement may be renewed for up to two (2) successive periods of fifteen (15) years each (hereinafter referred to as “Renewal Term”) provided that all of the following conditions are met on the renewal date:

1. Master Franchisee has to give SBS written notice of the election to renew no less than six (6) months and no more than twelve (12) months prior to the end of the term or each Renewal Term.

2. Master Franchisee is not in default of any provision of:

(a) This Agreement, including any amendment or restatement or successor agreement, or

(b) any other agreement between Master Franchisee and SBS, its subsidiaries and affiliates,

and has substantially complied with all the terms and conditions of such agreements during the initial term and renewal term(s), as the case may be.

3. Master Franchisee has satisfied all of its monetary obligations owed to SBS, and its subsidiaries and affiliates, and has timely met these obligations throughout the term of this Agreement and each Renewal Term; and

4. Master Franchisee executes SBS' then current form of Master Franchise Agreement, which will supersede this Agreement in all respects, and the terms of which may materially differ from the terms of this Agreement, except that Master Franchisee's territory may not be reduced as a condition to renewal and Master Franchisee is not required to pay any franchise fee which is then required of new Stratus Building Solution master franchisees; and

5. Master Franchisee has complied with SBS' then current qualifications and training requirements; and

6. Master Franchisee executes a general release in the form substantially similar to the general release attached to Franchisor's Franchise Disclosure Document provided to Master Franchisee no less than fourteen calendar days prior to the execution of the this Master Franchise Agreement.

C. Non-Renewal – If no renewal is elected by Master Franchisee, and this Agreement has not otherwise been terminated by SBS, then it terminates on the last day of the then current term or Renewal Term and no notice is required. All provisions of this Agreement that specifically survive the term of this Agreement or by their nature survive the term of this Agreement, including but not limited to confidentiality and non-competition provisions, which remain in full force and effect.

#### IV. **FEES, PAYMENTS & REPORTS**

A. The initial franchise fee is: \_\_\_\_\_ and it is payable as follows:

1. \_\_\_\_\_ due at the time this Agreement is executed;
2. \_\_\_\_\_ due on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_;

This franchise fee is non-refundable and is in addition to any other payments, including royalties that are payable under this Agreement.

B. Royalty Fees & Other Payment Obligations

1. Royalty on Contract Services & Sales Revenues – Master Franchisee agrees to pay to SBS, not later than the 10<sup>th</sup> day of each calendar month, a royalty fee calculated as a percentage of the Master Franchisee's gross revenues from contract services (whether performed directly by the Master Franchisee or its unit franchisees) for the prior calendar month, as follows:

<u>Gross Revenues – Monthly</u>	<u>Royalty Fee (% of Gross Revenues)</u>
Less than \$300,000.00	3.0%
Between \$300,000.00 and \$500,000.00	2.5%
Over \$500,000.00	2.0%

These royalties are calculated by each region independently and are not cumulative (i.e. each rate applies only to the revenues in its applicable category). For example, if gross revenues reach \$550,000.00 in any calendar month, the royalties would be calculated as follows:

3.0% of \$300,000.00 and

2.5% of \$200,000.00 (amount in excess of \$300,000.00 but less than \$500,000.00)

2.0% of \$50,000 (the amount in excess of \$500,000.00)

2. Gross Revenues Defined – For purposes of calculating any royalty fee or payment due under this Agreement the term “Gross revenues” means the total receipts collected for services and results of services performed by Master Franchisee and its Unit Franchisees at location where any type of cleaning and/or maintenance related services, including, but not limited to, commercial, industrial, institutional and residential cleaning and/or maintenance services are performed, without reduction for any amounts payable to or retained by franchisees and any other revenue related to or derived from the conduct and operation of Master Franchisee’s business. Sales from any Additional Business Services conducted by Unit Franchisees shall not be deemed Gross Revenues.

3. Royalty On Unit Franchise Fee – Master Franchisee agrees to pay to SBS, not later than the 10<sup>th</sup> day of each calendar month, a royalty fee calculated as a percentage of the Master Franchisee’s gross revenues from contract services (whether performed directly by the Master Franchisee or its unit franchisees) for the prior calendar month, as follows:

<u>Gross Revenues – Monthly</u>	<u>Royalty Fee (% of Gross Revenues)</u>
Less than \$300,000.00	20%
Between \$300,000.00 and \$500,000.00	15%
Over \$500,000.00	10%

(a) 20%/15%/10% (based on above) of any Unit Franchise fee received by Master Franchisee at time of sale; which must be paid to SBS by the 10<sup>th</sup> day of the next calendar month after the Unit Franchise fee is received by the Master Franchisee.

(b) 20%/15%/10% (based on above) of each principal and interest payment for any unit franchise fee that is financed by the Master Franchisee (i.e. payable by promissory note to the Master Franchisee); which must be paid to SBS by the 10<sup>th</sup> day of the next calendar month after any such payment is received by the Master Franchisee.

4. Advertising Fee – Master Franchisee agrees to pay to SBS, not later than the 10<sup>th</sup> day of each calendar month, a monthly advertising and public relations fee of \$150.00 or one percent (1.0%) of Gross Revenues, whichever is higher.

5. Marketing and Technology Fee – Master Franchisee agrees to pay to SBS, not later than the 10<sup>th</sup> day of each calendar month, a monthly Marketing and Technology Fee of 1% of gross revenues for Software & Web hosting services include hosting, producing, updating and maintaining the business solution software required in your business and internet microsites connected to the Stratus website.

6. Additional Payments to Franchisor – In addition to all other payments that Master Franchisee is obligated to pay SBS under this Agreement, the Master Franchisee must pay to SBS, or its designees, promptly when due, the following obligations:

(a) All sales taxes, use taxes, excise taxes, personal property taxes and other similar taxes, regardless of type or nature, imposed, levied, assessed or charged, on, against, or in connection with: 1) any products, services or equipment sold, furnished or leased by SBS to the Master Franchisee, or 2) any royalties or other fees paid by Master Franchisee to SBS; other than taxes measured solely by, and imposed on SBS' taxable income.

(b) All amounts advanced by SBS or which SBS pays, or becomes obligated to pay, on behalf of Master Franchisee or any of Master Franchisee's Unit Franchisees, for any reason whatsoever.

(c) All amounts for goods or services purchased by Master Franchisee from SBS, its subsidiaries, affiliates or designees.

(d) Stratus may implement, from time to time, new programs and operating procedures that would allow it to provide improved productivity or to render better services and may require that additional capital from you be provided. Examples of such programs are the use of technology to generate efficiencies in operating the Regional Office, create more lead sources for you, better ways to communicate with you and improved promotional materials, sales materials and service manuals.

7. Late Payment Fee – Any royalty fee or other payment obligation of the Master Franchisee to SBS that is not paid when due, is subject to a late charge which is the greater of: five percent (5%) of the delinquent payment or the maximum late fee payment allowed by law in the state of Master Franchisee's Territory.

8. Material Breach for Multiple Late Reports – A late payment of any royalty or other fee due from Master Franchisees to SBS is not a material default. However, failure to make TWO (2) payments of any royalty or other fee when due, within any twelve (12) month period is a material default under this Agreement, whether or not the late payment was cured (i.e. paid at a later date).

9. Allocation of Monies Received & SBS Set-Off Rights – If Master Franchisee is delinquent in the payment of any obligation to SBS under this Agreement, or under any other agreement with, or obligation to, SBS then SBS may apply any payment from the Master Franchisee to the oldest obligation due, first to interest, penalties and late charges and then to principal, whether under this Agreement or otherwise, despite any instruction from Master Franchisee to the contrary. Any monies owed by SBS to the Master Franchisee may be applied, credited, or set off against any debt of the Master Franchisee to SBS.

10. ACH Electronic Transfer – At our discretion, Franchisor may collect any and all fees owed to it through ACH (Automated Clearing House) electronic transfers. Master Franchisee agrees to grant any approval necessary and sign and any all documents necessary to establish such electronic transfers, and will not withdraw such approval without the consent of Franchisor.

C. Reports

1. Unit Franchisee Sales Reporting – Master Franchisee agrees to send SBS a copy of all executed pages filled out or signed in the unit franchise agreements by the 10<sup>th</sup> day of the next calendar month after it is executed.

2. Monthly Gross Revenue Reports – Master Franchisee agrees to submit to SBS, or its designee, on SBS approved forms, by the 10<sup>th</sup> day of each calendar month:

(a) A report that accurately records all Gross Revenues that have been received by the Master Franchisee during the previous calendar month; and

(b) A report that accurately records all Gross Revenues that have been generated by all of the Master Franchisee’s Unit Franchisees during the previous calendar month; and all reports must be mailed in such time as to reach SBS or its designee on or before the tenth (10<sup>th</sup>) day of each month. Should such report not be received on or before the tenth (10<sup>th</sup>) day of the month, Master Franchisee agrees to pay a late charge of fifty dollars (\$50.00) per day for each day that the report is not submitted and the parties agree such a charge is reasonable and proper.

3. Material Breach for Multiple Late Reports – The Master Franchisee’s late submission of a monthly royalty report is not a material default. However, the failure to make TWO (2) monthly reports when due, within any twelve (12) month period is a material default under this Agreement, whether or not the past due report is actually filed.

V. **MINIMUM REVENUES & MARKETING REQUIREMENTS**

A. Minimum Annual Revenues – Within one year after the Opening Date, the Master Franchisee must meet the minimum monthly gross revenue requirement of \$50,000.00 (the “Minimum Monthly Revenues”). This means that, beginning with the second year after the Opening Date (i.e. the 13<sup>th</sup> calendar month after the Opening Date) the Master Franchisee must generate not less than \$50,000.00 in monthly gross revenues on an annual basis. Within two years after the Opening Date, the Master Franchisee must meet the minimum monthly gross revenue requirement of \$100,000.00. This means that, beginning with the third year after the Opening Date (i.e. the 25<sup>th</sup> calendar month after the Opening Date) the Master Franchisee must generate not less than \$100,000.00 in monthly gross revenues on an annual basis. In addition to generating the Minimum Monthly Revenues, The Master Franchisee’s monthly gross revenues must increase each year beginning with the third year after the Opening Date, all as a condition to the continuation of your franchise.

If the Master Franchisee does not meet this minimum growth obligation, then SBS, at its sole discretion, has the following options:

(a) SBS may require Master Franchisee and its key employees, to attend remedial training at SBS’ principal place of business or other location selected by SBS, at Master Franchisee’s sole expense.

(b) SBS may cancel the exclusivity right granted to Master Franchisee in Section II above to market and sell unit franchises and acquire accounts, and SBS may thereafter acquire contracts and accounts, sell additional Master Franchises as well as Unit Franchises within the Territory (who may then directly compete with the Master Franchisee) or,

B. Minimum Number of Unit Franchises – Beginning on the first day of the third year following the Effective Date, and at all times thereafter, the Master Franchisee must have at least fifty (50) operating and active (i.e. not in default) Unit Franchises. Master Franchisee’s failure to meet this requirement is a material breach of this Agreement.

## **VI. UNIFORM METHODS, RULES & OPERATIONS MANUAL**

A. Absentee Owner Prohibited – Master Franchisee (directly or through its Regional Director) agrees to devote sufficient time and effort to its Master Franchise business to comply with all of the terms of this Agreement and those rules of operation instituted by SBS from time to time. Although Master Franchisee is not obligated to devote his full time to the franchise, he must manage the business himself and may not delegate any of his authority or obligations under this Agreement without SBS’ prior written consent.

If the franchise is owned by husband and wife, one spouse must be designated as the Regional Director and will be personally responsible for the day-to-day management of the franchise and compliance with the terms of this Agreement.

If the franchise is owned by a partnership, the partnership must designate one of the general partners as the Regional Director who will be personally responsible for the day-to-day management of the franchise and compliance with the terms of this Agreement.

If the franchise is owned by an entity (i.e. a limited liability company or corporation) then the majority Owner must be designated as the Regional Director, and he/she will be personally responsible for the day-to-day management of the Master Franchise and compliance with the terms of this Agreement.

If the entity’s stock unit ownership is divided so that no one person owns more than fifty percent (50%) of the outstanding stock/units, then the stockholders/owners must designate one of the two (2) largest stockholders/owners as the Regional Director. If one hundred percent (100%) of the corporation’s stock is owned by husband and wife, then one spouse must be designated as the Regional Director and will be personally responsible for the day-to-day management of the franchise and compliance with the terms of this Agreement. For purposes of this Section stock or unit ownership is determined by counting only shares or units with voting rights.

The Regional Director must manage the business himself/herself and may not delegate any of his/her authority or obligations under this Agreement without SBS’ prior written consent.

The Master Franchisee or the Regional Director, as the case may be, must permanently reside within the Territory at all times.

B. Review of Regional Director – If SBS, after using standards and procedures applied on a uniform basis throughout the system, finds that a Regional Director is not properly performing his or her duties, SBS will advise the Master Franchisee in writing and the Master Franchisee must immediately take corrective steps to remedy the situation. If the Master Franchisee does not correct the situation, then SBS may require the Master Franchisee to replace the Regional Director within 30 days of written notice to Master Franchisee. Within 30 days of the Regional Director’s termination, the Master Franchisee must appoint a successor and that person must attend the next available SBS training session.

C. Uniform Methods – Master Franchisee promises to strictly adhere to the uniform methods, practice and operation for SBS Master Franchises. For the mutual benefit of SBS and all Master

Franchisees, and to protect the quality, goodwill and public acceptance of the Stratus Building Solutions systems and methods, the Master Franchisee specifically promises and agrees that he will:

1. Use his best efforts to promote the success of his SBS Master franchise;
2. Accept and follow all reasonable rules, procedures and standards made and adopted by SBS in the organization and operation of his SBS Master Franchise as may from time to time be contained in manuals published by SBS;
3. Keep and maintain his franchise business premises in a high degree of cleanliness and sanitation;
4. Prohibit any of his personnel wearing any uniform or item of clothing that indicates or represents an affiliation with any other janitorial or cleaning services or company, or such references or artwork that would bring discredit to Stratus Building Solutions or its affiliates.

D. Stratus Building Solutions Operations Manual – For the mutual benefit of Master Franchisee and Franchisor to protect the trademarks, trade names and other proprietary assets of SBS, and to promote the goodwill of those proprietary assets, and to establish and maintain uniform standards of operation, SBS has developed various manuals (collectively the “Operations Manual”) and Master Franchisee agrees to conduct its Master Franchise in strict accordance with the operational methods and procedures as prescribed in said Operations Manual and any supplemental bulletins and notices which may be deemed a part thereof. SBS retains the right to prescribe additions, deletions or revisions in said Operations Manual which is binding on Master Franchisee agrees to keep and maintain his copy of said Operations Manual current and to be familiar with the procedures published therein.

Upon receipt of the Operations Manual the Master Franchisee must acknowledge its receipt promptly in writing to SBS. Master Franchisee will, at all times, treat the Operations Manual, and any other manuals created for or approved for use in the operation of the franchise business, supplemental materials or bulletins, and the information contained therein, as confidential, and shall use all reasonable efforts to maintain such information as secret and confidential. Master Franchisee will not, at any time, copy, duplicated, record or otherwise reproduce the foregoing materials, in whole or in part, nor otherwise make the same available to any unauthorized person.

Master Franchisee agrees that said Operations Manual and all other data, information and materials received from SBS is and remains the sole property of SBS. Master Franchisee agrees to return its copy of said Manual and all other data, information and materials received from SBS upon the termination or expiration of this Agreement.

Master Franchisee must, at all times, insure that its copy of the Operations Manual is kept current and up-to-date, and, if there is any dispute as to the contents of the Manual, the terms of the master copy of the Manual maintained by SBS at its principal offices is controlling. Master Franchisee agrees that it is bound by said standards and policies upon receipt of same by Master Franchisee.

E. Miscellaneous – Master Franchisee promises to faithfully exert his best efforts to distribute to all Unit Franchisees in his Territory, all materials and information that SBS instructs him to so distribute.

## VII. SALE & MANAGEMENT OF UNIT FRANCHISES

A. Right to Market & Sell Unit Franchises – Subject to the terms and conditions of this Agreement, the Master Franchisee:

1. Has the right to market and sell Stratus Building Solutions unit franchises (“Unit Franchise(s)”) within the Territory; and

2. is solely responsible for the sale, supervision and management of Unit Franchises within the Territory.

### B. Obligation to Supervise & Enforce Unit Franchise Agreements

1. Monitor & Enforce Unit Franchise Agreements – Master Franchisee accepts the responsibility for, and agrees to vigilantly monitor its Unit Franchisees and to enforce all of the terms and conditions of Unit Franchise Agreements issued by the Master Franchisee.

2. Supervise & Enforce Stratus Building Solutions Marks – Master Franchisee agrees to supervise and enforce the use of all Stratus Building Solutions Marks by its Unit Franchisees. Failure of Master Franchisee to exercise the proper diligence in enforcing the terms of any unit franchise agreement and to ensure that the trademarks, trade names and service marks are being properly used by its Unit Franchisees is a material default in this Agreement.

3. Master Franchisee Bound By Unit Franchise Agreement – Master Franchisee acknowledges that it is also bound by each Unit Franchise Agreement and agrees to faithfully and conscientiously meet and fulfill all of its obligations and duties under each of its Unit Franchise Agreements.

### C. Training & Support of Unit Franchisees

1. Initial Training – Master Franchisee agrees to provide a comprehensive Operational Training Program for each Unit Franchisee, which must include a minimum of fifteen (15) hours of training, assistance and education. The program must begin with an extensive training session of not less than fifteen (15 hours duration, at a location to be established by Master Franchisee, and which must include Stratus Building Solutions methods and procedures for cleaning, and the sale and management of Unit Franchises, using formal instruction, self-study material and practical training. Regarding the training program, Master Franchisee will further support and assist each Unit Franchisee by:

(a) making available to Unit Franchisee applicable confidential manuals, training aids, and any pertinent information concerning Stratus Building Solutions methods and practices.

(b) continuing appropriate assistance and guidance until Unit Franchisee has been offered customers/clients that generate initial gross monthly billings as required by the Unit Franchise Agreement.

(c) having personnel available on an ongoing basis during regular daily business hours to provide technical assistance, consultation and advice on marketing and operations procedures by telephone or in training and support for Unit Franchisee at reasonable rates as established by Stratus Building Solutions procedures.

2. Alert & Educate About Stratus Building Solutions Products – Master Franchisee must consistently alert, inform and educate its Unit Franchisees about the nature, performance and availability of Stratus Building Solutions products, supplies and equipment so as to encourage uniformity a throughout its Territory Master Franchise training for Unit Franchisees must include education on the performance, use and ordering process for all Stratus Building Solutions products, supplies and equipment

3. Regular Office Hours & Franchisee Support Required – Master Franchisee must maintain regular daily office hours, provide adequate Unit Franchisee communication and support; and to otherwise maintain and operate its office(s) in a manner that will promote the efficiency and success of its Unit Franchisees.

4. Develop Franchise Plan – Master Franchisee must take into account Unit Franchisees’ input regarding service specifics (estimate, cost assessments, and ordering supplies) in developing Franchisees’ franchise plans or selecting customer accounts.

5. Support Unit Franchisees’ Additional Business Services – Master Franchisee agrees to encourage Unit Franchisees to offer and provide additional business services separate from those offered by the franchised business to generate separate revenue streams (the “Additional Business Services”). Additional Business Services may include, but is not limited to, residential cleaning services, waste removal, snow removal, and recycling services. Unit Franchisees must have the right to offer the Additional Business Services to existing customers that were originally introduced to Unit Franchisees by Master Franchisee and new customers.

D. SBS Actions and Authority

1. SBS Right to Enforce Unit Franchise Agreement – SBS has the right, but not the obligation, at all times and in its sole discretion, to enforce any provision of any Unit Franchise Agreement if the Master Franchisee fails to do so within thirty (30) days of receiving a notice from SBS of the Master Franchisee’s failure to perform.

2. SBS Correction On Customer Satisfaction Failure – All customer services performed by or under the direction of Master Franchisee, or performed by a Unit Franchisee, must be performed in a good and workmanlike manner, to the satisfaction of the customer for whom such services are performed. If Master Franchisee fails to accomplish such customer satisfaction both in the letter and spirit of this Agreement, and customer complaints continue for an unreasonable period of time, or the customer requests transfer or termination of its service contract, or that SBS intervene, then SBS may, without notice, assume responsibility for that customer’s service regardless of any agreement to the contrary, and without obligation to pay any royalty or fees to the Master Franchisee.

3. SBS Enforcement On Termination of Master Franchise Agreement – If this Master Franchise Agreement terminates or expires, SBS may, at SBS’ sole option, immediately succeed, or designate and assign to a replacement master franchisee, the Master Franchisee’s rights to manage and enforce all of the terms and conditions of a Unit Franchise Agreement, without notice to Master Franchisee or the Unit Franchisee. Should SBS succeed to, or designate and assign to a replacement master franchisee, the Master Franchisee’s rights under any Unit Franchise Agreement, then the Master Franchisee’s rights to benefit or receive revenues/royalty fees from the Unit Franchisee will simultaneously terminate. SBS may, but is not required to assume any of the Master Franchisee’s obligations or liabilities to any Unit Franchisee. Should SBS elect not to assume or assign Master Franchisee’s rights to manage and enforce all of the terms and conditions of a Unit Franchise Agreement, Master Franchisee must immediately terminate its Unit Franchisee Agreements.

E. Unit Franchise Documents

1. Unit Franchise Compliance Documents – Master Franchisee must comply with all laws and regulations governing the sale of franchises including, without limitation, the proper and timely delivery of a disclosure document, unit franchise agreement and other related documents (“Unit Franchise Compliance Documents”). If a registration is required in the state where Master Franchisee’s Territory is located, then in addition to applicable federal laws and regulations, the Master Franchisee must file all necessary documents and disclosures with the appropriate state agency(s) prior to selling, advertising or offering for sale any franchise within the Territory.

2. SBS Not Responsible For Preparation of Compliance Documents – SBS is not responsible for preparing or registering any Unit Franchise Compliance Documents or the accuracy of any such documents as distributed or filed for registration. SBS will offer sample documents for compliance, but makes no representation or warranty of those documents’ compliance with federal, state or local laws and regulations, and Master Franchisee acknowledges that it has been urged by SBS to seek the assistance of independent attorneys and counsel to review and complete such documents.

3. SBS Must Approve Form of All Unit Franchise Documents – The form of all Unit Franchise Documents must be submitted to, and approved by, SBS prior to use by the Master Franchisee. Similarly, any changes, amendments or revisions to any of the Unit Franchise Documents must be approved by SBS prior to use by the Master Franchisee. All Unit Franchise Documents must include a provision stating that SBS is a third-party beneficiary of the Unit Franchise Documents with rights to assume and enforce them should the Master Franchisee fail to do so.

4. SBS Must Receive Copy of all Executed Pages of Unit Franchise Agreements – Master Franchisee agrees to send SBS a copy of all executed pages filled out or signed in the unit franchise agreement by the 10<sup>th</sup> day of the next calendar month after it is executed.

F. Indemnification – SBS is not liable for any act, omission, debt or other obligation of any Unit Franchisee. Master Franchisee agrees to indemnify, defend and save harmless SBS from all damages, fines debts, expenses (including attorney’s fees and court costs), charges, suits, proceedings, claims, demands or actions of whatever kind or nature, by any Unit Franchisee or arising out of any Unit Franchisee’s actions or failure to act.

**VIII. TERMS OF TRANSFER (ENCUMBRANCE PROHIBITED)**

A. Legal Terms – The legal term for transfer of a license or franchise is “assignment”. The person who transfers a franchise is the “assignor” and the person to whom the franchise is transferred is the “assignee”. This Agreement frequently uses the term “transfer” in place of “assignment”, and uses the term “purchaser” in place of “assignee” and the term “seller” or “Master Franchisee” in place of “assignor” (since an assignment is usually a sale). For purposes of this Agreement the terms “assignment” and “transfer” include any sale or transfer, whether or not for consideration and whether or not the transfer is voluntary, involuntary or by operation of law.

B. Assignment by Franchisor – SBS may, at any time, delegate any of its obligations and transfer or assign any of its rights and privileges under this Agreement.

C. Sub-Franchise or Partial Assignment Prohibited – Master Franchisee may not sub-franchise or otherwise transfer less than all of his rights and privileges acquired under this Agreement (except the grant of Unit Franchises as described herein). If Master Franchisee attempts to make a partial transfer, SBS may terminate this Agreement without notice to the Master Franchisee under Section XVI.

D. Encumbrance by Master Franchisee Prohibited – Master Franchisee may not pledge, encumber, hypothecate or otherwise grant anyone a security interest in any of the rights acquired under this Agreement without SBS’ prior written consent; and Master Franchisee understands that SBS may arbitrarily withhold its consent without cause or justification.

E. Assignment by Master Franchisee – SBS has entered into this Agreement in reliance upon Master Franchisee’s personal skill, character and qualifications (or if the Master Franchisee is an entity, then in reliance on the Master Franchisee’s principal owners/shareholders’ and officers’ qualifications). Therefore, the franchise described in this Agreement may be assigned or transferred only with SBS’ prior written consent.

1. SBS’ First Right to Purchase the Franchise – If Master Franchisee intends to transfer his Stratus Building Solutions master franchise, he must notify SBS in writing (“Sale Notice”), via certified mail, describing all the terms and conditions of the proposed transfer. For thirty (30) days after SBS receives the Sale Notice (Review Period”), it will have the exclusive first right to purchase the franchise on the same terms and conditions described in the Sale Notice. If, during the review period, SBS makes a reasonable request for additional information, the review period will be extended and SBS will have fifteen (15) days from receipt of the additional information to exercise its right to purchase. At the end of the Review Period (including extensions), SBS must notify the Master Franchisee in writing whether it has decided to exercise or waive its right to purchase. If the right to purchase is waived, the notice must describe the conditions SBS will impose on the transfer.

2. Transfer Conditions – If all transfer conditions imposed by SBS are fulfilled, SBS will consent to the assignment. If the Master Franchisee does not complete the proposed assignment within thirty (30) days after SBS consents to the transfer according to the terms in the Sale Notice, the Master Franchisee must re-notify SBS as if he has received a new offer to purchase the franchise. The conditions precedent that SBS may impose on a proposed transfer include, without limitation:

a. The purchaser will be reviewed by SBS as if he had independently applied for a franchise. Therefore the purchaser must submit a confidential application. If the purchaser is an individual, the application must be completed by him and his spouse. If the purchaser is a partnership, then all partners and their spouses must complete the application. If the purchaser is an entity (i.e. corporation or limited liability company), then all stockholders/owners and their spouses must complete the application. The purchaser must satisfy SBS that he (or the partners or a partnership, or the shareholders/owners of an entity) has the skills, qualifications and economic resources necessary in SBS’ sole judgment to operate the franchised business and fulfill his obligations to the selling Master Franchisee.

b. Prior to closing or completion of the transfer, the selling Master Franchisee must document that he has fulfilled all of his obligations to SBS (both under this Agreement and any other agreement Master Franchisee may have with SBS).

c. SBS may require the seller to deposit a sum into an escrow account opened in SBS’ name. No money may be disbursed from this account without SBS’ prior written authorization. The purpose of this account is to provide for payment of Stratus Building Solutions royalties and fees owed by the seller and for payment of any of seller’s disclosed debts. SBS may disburse funds from the escrow account to pay any of seller’s creditors and to pay for any fees or royalties seller then owes to SBS. Interest may be earned on the escrow account and paid to the seller when the account is closed.

d. The purchaser must sign a Stratus Building Solutions Master Franchise Agreement in the form and on the terms and condition then being offered to prospective Master Franchisees with similar circumstances (except that no Initial Franchise Fee is required) together with all attachments then required by new Stratus Building Solutions Master Franchisees. The term of the new Franchise Agreement will end on the date this Agreement would have terminated. Except for the Master Franchisee's post-term obligations, this Agreement will terminate when the purchaser signs a new Franchise Agreement and all of the conditions described in this Section are fulfilled.

e. The Master Franchisee must pay SBS ten percent (10%) of the gross sale price.

f. The purchaser must satisfactorily complete the initial training program then required of all new Master Franchisees unless such training is waived by SBS in writing, because of the purchaser's prior experience or training.

F. Partial Ownership Transfers – If Master Franchisee is a partnership or entity (i.e. a limited liability company or a corporation), then a transfer of stock or ownership interest that effectively transfers fifty-one percent (51%) of the voting control of the Master Franchise will be considered an assignment for purposes of this Agreement. For this purpose, all transfers during the term of this Agreement, must be aggregated and if successive ownership transfers results in a transfer of control, the Master Franchisee will be treated as if it has attempted to assign the entire franchise to a new owner.

G. Transfer Because of Death, Disability or Incapacity – If a Master Franchisee or its principal owner (i.e. its majority shareholder or owner of 51% of the voting ownership) dies, or becomes permanently disabled or legally incapacitated, then a member of his immediate family may receive or acquire his ownership interest in the Master Franchise if the immediate family member completes the master franchise application process, is accepted as a Stratus Building Solutions Master Franchisee and fulfills any transfer conditions imposed by SBS. If the Master Franchisee is an entity, then this provision applies to the death or redemption of the controlling owner/shareholder and his/her spouse. If the immediate family member's application is rejected, he/she will have ninety (90) days to find a purchaser. Any subsequently proposed sale or other transfer must be accomplished according to the terms and conditions of Section XIII-F. If the Master Franchisee cannot find a purchaser within ninety (90) days from the date of death, disability or incapacity, SBS will have the exclusive first right to purchase the franchise for its fair market value. During any time the franchise is not being managed because of a Master Franchisee's death, disability or legal incapacity, SBS may appoint a receiver/interim manager to operate the Master Franchisee's business. Master Franchisee and his heirs or legal representative must cooperate with the interim manager's efforts so that its business continues without interruption. The receiver/interim manager will have complete authority to operate the franchise with access to all of Master Franchisee's records. Revenues that the Master Franchisee would otherwise have earned will first be applied to any debt Master Franchisee owes to SBS and the balances, if any, paid to the Master Franchisee.

H. Permanent Disability Defined – For this purpose "Permanent disability" means any physical, emotional or mental injury, illness or incapacity which would prevent a person from performing the obligations set forth in this Master Franchise Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability must be determined by a licensed practicing physician selected by SBS upon examination of the person; or, if the person refuses to submit to an examination, then such person will be automatically deemed permanently disabled as of the date of such refusal.

I. SBS Consent Not Unreasonably Withheld – SBS may not unreasonably withhold its consent to an assignment, transfer or sale of the franchise whenever the purchaser/transferee meets the present qualifications and standards required of a new Master Franchise applicant.

## **IX. RIGHT OF FIRST REFUSAL**

If the Master Franchisee receives a bona fide arm's length offer to purchase Master Franchisee's interest in this Agreement or in the business conducted hereunder or Master Franchisee proposes to convert, assign, or otherwise transfer Master Franchisee's interest in this Agreement or in the business conducted hereunder, in whole or in part, to a person other than an entity of which Master Franchisee or its Owners are the sole owners/shareholders. Master Franchisee must first offer to sell said interest to SBS. Master Franchisee must provide SBS, in a written statement verified by Master Franchisee, the terms of the offer received or made by Master Franchisee, and SBS shall have thirty (30) days from the receipt of said statement to either accept or refuse such offer. Written notice to Master Franchisee, of SBS' decision to accept or refuse said offer must be dated by the thirtieth (30<sup>th</sup>) day. Acceptance by SBS must be at the same price and on the same terms set forth in the written statement submitted by Master Franchisee. IF SBS fails to accept the offer within the thirty (30) day period, Master Franchisee is free to effect the disposition described in the statement upon the exact terms set forth in the statement delivered to SBS, provided that nothing in this Paragraph may be interpreted as limiting the requirements of Section VIII of this Agreement relating to transfer of rights under this Agreement. Furthermore, if Master Franchisee is insolvent, or upon the filing of any petition by or against Master Franchisee under provisions of any bankruptcy law, SBS has the first right to purchase the business conducted by Master Franchisee, for any amount and pursuant to terms established by an independent appraiser selected by SBS.

## **X. FISCAL YEAR, ACCOUNTING RECORDS & AUDITS**

A. Fiscal Year & Accounting Records – During the term of this Agreement, Master Franchisee must maintain and preserve full, complete and accurate books, records, and accounts prepared in accordance with generally accepted accounting principles, and in accordance with such other Stratus Building Solutions regulations and operation manuals (as may be revised in SBS' sole discretion from time to time). Such books and records must include, but are not limited to, records of fees collected, books of account, ledgers, financial statements, federal state and local tax returns, bank books, duplicate deposit slips and other evidence of business transactions Unit Franchise royalty fees and payments, and other gross revenues (collectively the "Financial Records"). Master Franchisee agrees to keep and preserve all of its Financial Records for each fiscal year not less than five (5) years after the close of that fiscal year.

B. Annual Financial Reports – Within 90 days after the close of its fiscal year, Master Franchisee must submit to SBS a complete set of financial statements for that fiscal year (the "Annual Financial Statements"). The Annual Financial Statements must be prepared in accordance with generally accepted accounting principles, by an independent certified public accountant. The Financial Statements must include a balance sheet, income statement, profit and loss statement and such other reports or statements required by SBS from time to time. If the Master Franchisee owns, directly or beneficially, a controlling financial interest in another business, the financial statement required to be submitted must reflect the financial condition of the Master Franchisee and its other operations on a consolidated basis.

C. SBS Records Review or Audit - SBS reserves the right, at any time, without notice to:

Records.

1. To review, inspect, audit and make copies of all of Master Franchisee's Financial
2. Conduct an independent audit of the Master Franchisee's Financial Records.

Master Franchisee must make all of its Financial Records available and accessible at the Master Franchisee's principal place of business for any such review or audit, including necessary passwords and other information necessary to access computer software and computer stored files. SBS agrees that any review or audit will not unnecessarily interfere with Master Franchisee's day to day operation of its business.

D. Cost of Review or Audit – Any review or audit must be performed at SBS' cost and expense unless:

1. It is necessitated by the failure of Master Franchisee to provide the timely reports required or requested, or to preserve records by SBS from time to time; or

2. The inspection or audit discloses that a Master Franchisee financial statement or monthly report made by Master Franchisee is in error by more five percent (5%); in which case the Master Franchisee must immediately, and at its sole expense: 1) correct any financial statement or report that is in error, 2) pay SBS any unpaid royalty fees or other past due obligations found in the review or audit, 3) pay any late fees, interest or other penalties imposed by SBS for late payments, 4) file amended tax returns as may be required by law, and pay all resulting taxes, penalties and interest 5) pay for the cost of the SBS review or audit.

E. Outside Audit – If Master Franchisee should, at any time, cause an audit or Master Franchisee's business to be conducted by an independent CPA, then Master Franchisee must deliver to SBS a copy of such audit report, without cost or expense to SBS.

## **XI. INDEPENDENT CONTRACTOR STATUS**

Unless otherwise specifically provided in this Agreement, all expenses, labor and materials used in the operation of the master franchise established by this Agreement are the sole responsibility of the Master Franchisee. Master Franchisee is not authorized, under any circumstances, to make any contract, agreement, warranty or representation on behalf of SBS or to create any obligation or debt, expressed or implied, in the name of or on behalf of SBS, except the granting of unit franchises strictly in accordance with this Agreement and SBS terms, rules, and regulations as amended from time to time. Similarly, Franchisee may not established any bank account, or apply for any loan or credit in the name of SBS.

Master Franchisee agrees to operate independently from SBS and is not considered, whether directly or indirectly, ostensible, apparently or otherwise, an employee, agent, joint venturer, shareholder, co- trustee or partner of SBS. Master Franchisee shall be solely responsible for all employment decisions and functions, including without limitation, those related to hiring, firing, establishing remuneration, personnel policies, benefits, disciplining, supervising, and recordkeeping regardless of whether Master Franchisee received advice from SBS on the subjects. Except as specifically provided in this Agreement, SBS has no right to control the business or operation of Master Franchisee, to control the expenditure of its funds, approve its unit franchisees or to hire to terminate any of Master Franchisee's employees; it being understood and agreed that so long as Master Franchisee conducts its business in a lawful manner

and fully complies with the terms and conditions of this Agreement, that the control and direction of the Master Franchisee's business remains with the Master Franchisee.

SBS is not liable for any act, omission, debt or other obligation of Master Franchisee. The Master Franchisee agrees to indemnify, defend and save harmless SBS from all damages, fines debts, expenses (including attorney's fees and court costs), charges, suits, proceedings, claims, demands or actions of whatever kind or nature, arising or growing out of or otherwise connected with or related to the Master Franchisee's maintenance and/or operation of the business licensed by this Agreement.

## **XII. DIVERSION/SOLICITATION OF STRATUS BUILDING SOLUTIONS BUSINESS & EMPLOYEES PROHIBITED**

A. Consideration For Training & Access to Proprietary Information – Master Franchisee acknowledges that Master Franchisee and its Key Participants will receive valuable specialized training and access to trade secrets, proprietary and confidential informational, including, without limitations, information about the operational, sales, promotional and marketing methods and techniques of Stratus Building Solutions (collectively the "Proprietary Information"). Master Franchisee understands and acknowledges that this training and access to Proprietary Information is, in part, the consideration for the covenants and restrictions placed on the Master Franchisee and its Key Participants.

B. Non-Competition During Term of Agreement – While this Agreement is in effect the Master Franchisee and its Key Participants may not directly or indirectly,

1. Divert, solicit, interfere with, misappropriate, take away or attempt to divert or take away any source of Stratus Building Solutions business or revenue generated by a Stratus Building Solutions Master Franchisee, Stratus Building Solutions Unit Franchisee or the customer or any Master Franchisee or Unit Franchisee.

2. Perform any services for, engage in or acquire, become an employee of, have any financial beneficial or equitable interest in, or have any interest whatsoever in any business which:

(a) performs any type of cleaning and/or maintenance related services, including, but not limited to, commercial, industrial, institutional and residential cleaning services; or

(b) is similar to the Stratus Building Solutions' janitorial, cleaning and maintenance system and business described in any of the following: this Master Franchise Agreement, a Stratus Building Solutions Unit Franchise Agreement or the Stratus Building Solutions Operating Manual, all as amended or revised from time to time.

(c) sells, leases or distributes supplies and equipment related to any of the above.

3. Employ or seek to employ any person, who is at that time, employed by Stratus Building Solutions or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

4. Induce any person to leave his or her employment with Stratus Building Solutions or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

5. Perform or contribute to any other act injurious or prejudicial to the goodwill associated with Stratus Building Solutions or its Marks.

For clarity, Master Franchisee's support of Unit Franchisees' Additional Business Services will not qualify as a violation of any of the above.

C. Non-Competition After Term of Agreement Has Expired – Within the Non-compete Area and for a period of two(2) years immediately following the termination, assignment or other transfer of this Agreement, the Master Franchisee and its Key Participants may not directly or indirectly.

1. Divert, solicit, interfere with, misappropriate, take away or attempt to divert or take away any source of Stratus Building Solutions business or revenue, Stratus Building Solutions customer or Stratus Building Solutions unit franchisee.

2. Perform any services for, engage in or acquire, become an employee of, have any financial, beneficial, or equitable interest in, or have any interest whatsoever in any business which:

(a) performs any type of cleaning and/or maintenance related services, including but not limited to, commercial industrial, institutional and residential cleaning services; or

(b) is similar to the Stratus Building Solutions' janitorial, cleaning and maintenance system and business described in any of the following: this Master Franchise Agreement, an Stratus Building Solutions Unit Franchise Agreement or the Stratus Building Solutions Operating Manual, all as amended or revised from time to time.

(c) sells, leases or distributes supplies and equipment related to any of the above.

3. Employ or seek to employ any person, who is at that time, employed by SBS or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

4. Induce any person to leave his or her employment with Stratus Building Solutions or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

5. Perform or contribute to any other act injurious or prejudicial to the goodwill associated with Stratus Building Solutions or its Marks.

The "Non-Compete Area" means: (1) within one hundred (100) miles of the Master Franchisee's Territory and (2) within one hundred (100) miles of any other Stratus Building Solutions Master Franchisee territory, any Stratus Building Solutions Unit Franchisee or other business which is franchised, owned, operated or managed by or under the direction or auspices of SBS or any of its affiliates which is within one hundred (100) miles of the Master Franchisee's Territory.

For clarity, Master Franchisee's support of Unit Franchisees' Additional Business Services during the term of Unit Franchisees' Franchise Agreements will not qualify as a violation of any of the above.

D. Key Participant Defined – In this Section, the term “Key Participants” includes, without limitation:

1. All owners and their spouses;
2. All directors or others in similar decision-making or fiduciary capacity, regardless of title;
3. All officers and managers (including division managers),
4. All people with supervisory or management positions.

Master Franchisee is obligated, at all times, to identify and provide SBS with the names of all its Key Participants. Failure to do so is a material breach of this Agreement. SBS has the sole and final authority to determine whether a person has the necessary training or access to Proprietary Information and/or decision making authority to fall under the definition of a “Key Participant”.

E. Claims Not A Defense – No claim that Master Franchisee may have against SBS, whether or not it arises under this Agreement, may be asserted as a defense to SBS’ enforcement of the provision of this Section.

F. Reasonableness of Restrictions – SBS intends to restrict the activities of Master Franchisee and its Key Participants only to the extent necessary for the protection of SBS’s legitimate business interests. If any of the provisions or restrictions herein are excessively broad as to time, geographical scope, activity or subject, that provision must be limited and construed in a way that makes it enforceable under the applicable law.

G. SBS Remedies For Breach – Master Franchisee acknowledges that a violation of the terms and conditions of this Section will irreparably and continually damage SBS and that money damages may not be adequate (and thus no remedy at law may be available). Consequently, if SBS discovers such a violation or reasonable believes that such a violation is about to occur, then SBS is entitled to both (1) a temporary, preliminary or permanent injunction to prevent the continuing harm to SBS, and (2) money damages insofar as they can be determined. No bond is required for the issuance of a temporary restraining order of preliminary injunction and Master Franchisee expressly waives the imposition of any bond for that purpose. Master Franchisee must pay SBS’ costs (including expert witness fees) and actual attorney fees necessary to pursue any SBS remedy under this Section.

H. SBS Third Party Beneficiary – Master Franchisee acknowledges that SBS is a third party beneficiary of every duty, obligation and covenant imposed on the Master Franchisee and its Key Participants in this Section with the independent right to enforce them without notice to the Master Franchisee.

I. Non-Compete Agreements Required – Every Key Participant must execute a Non-Compete Agreement in the form attached as Exhibit A. Failure of the Master Franchisee to procure this Non-Compete Agreement from each Key Participants is a material breach of this Agreement.

### **XIII. INSURANCE & INDEMNIFICATION**

Master Franchisee must purchase and, while this Agreement is in effect maintain, a commercial cleaning services bond and policies of insurance with such minimum standards, coverage's, and limits as SBS may, from time to time, prescribe in its regulations and operations manuals (which may include, without limitation, worker's compensation, property, bodily injury, automotive coverage (including hired car, and non-ownership vehicles), completed operation and products coverage with an extended property damage endorsement for building services contractors, and employer's liability). In addition, the Master Franchisee must purchase and maintain such insurance and/or bonds required by any government or government agency. Master Franchisee must provide SBS with proof of coverage at the following times:

1. Prior to the Opening Date, and this Agreement is not in effect until proof of coverage is received by SBS;
2. Annually on the anniversary date of the policy; and
3. At any other time requested by SBS.

Master Franchisee fails or refuses to purchase insurance conforming to the standards, coverage and limits prescribed by SBS, then SBS, through agents and insurance companies of its own choosing, may, but is not required to purchase such insurance as is necessary to meet such standards. The cost of such insurance so purchased by SBS will be at the expense of, and paid by Master Franchisee. Such insurance as may be obtained by SBS for Master Franchisee may be amended, cancelled, terminated or modified at any time upon ten (10) days written notice to Master Franchisee.

Nothing contained in this Agreement may be construed or deemed to impose any duty on SBS to obtain or maintain any specific forms, kinds or amounts of insurance for or on behalf of Master Franchisee, or as an undertaking or representation by SBS that such insurance as may be obtained by Master Franchisee or by SBS for Master Franchisee will insure Master Franchisee against any or all insurable risks of loss that may arise out of or in connection with the operation of the Master Franchisee's business.

Master Franchisee may obtain, on his own behalf and at his own cost and expense, such insurance as Master Franchisee, from time to time, may desire, in addition to that required by SBS.

Each policy of insurance purchased by Master Franchisee must name SBS as an additional insured and include a Grantor of Franchise endorsement, and shall provide that SBS shall be given at least ten (10) days prior written notice of its termination, amendment, cancellation or modification. Master Franchisee shall provide SBS with a Certificate of Insurance evidencing the amount, nature and period of coverage no later than ten (10) days after acceptance and signing of this Agreement by SBS, and shall provide current certificates during the entire term of this Agreement or any renewal terms.

Master Franchisee is solely responsible for and agrees to indemnify SBS for all loss or damage arising out of or in connection with, the operation of the Master Franchisee's business, and for all claims or demands for damages or injury (including death) to persons or property, including actual attorney fees. In addition, SBS may, at its sole option, retain its own counsel to defend any such action or claim and Master Franchisee agrees to promptly reimburse SBS for its reasonable attorney fees.

Master Franchisee agrees to require unit franchisees within its Territory, as a condition to granting any unit franchise or license, to carry similar types and amounts of insurance, and if necessary purchase

such insurance for the benefit of the unit franchisee, as required by SBS rules and regulations, which may be revised at SBS' sole discretion at anytime

#### **XIV. PROTECTING MATERIALS AND CONFIDENTIAL INFORMATION**

A. Confidentiality – Master Franchisee acknowledges that the trade secrets, information, ideas, research, methods, manuals, procedures, systems, improvements, and copyrighted and other materials including educational or training materials, fee and Unit Franchise records, and the Operations Manual, owned or developed by or licensed to SBS, whether or not published, confidential, or suitable for registration or copyright, and the goodwill associated with them, are and shall remain the sole and exclusive property of SBS. They are provided or revealed to Master Franchisee in trust and confidence. Any and all information, knowledge, and know-how not generally known about the Stratus Building Solutions system and methods, products, services, standards, specifications, procedures and techniques, and such other information or materials as SBS may designate as confidential, shall be deemed confidential for purposes of this Agreement.

B. Disclosure Prohibited – Master Franchisee agrees to keep the aforesaid information confidential and to use it only for the purpose and in the manner authorized in writing by SBS. Master Franchisee agrees that during and after the termination of this Agreement for any reason, neither Master Franchisee, nor any of his agents, employees, owners, or representatives shall at any time copy or disclose to any other person or use for any purpose other than the internal operation of its franchised business, any secret, confidential, or other information received from SBS. Master Franchisee agrees to enforce the terms of this provision as to its agents, employees, representatives, and owners. Further, Master Franchisee hereby grants SBS the right, but not the obligation, to enforce this covenant in Master Franchisee's name or SBS' name against any such agent, employee, owner, or representative violating same.

C. This Agreement – Master Franchisee shall keep the content of this Agreement and any attachments or Exhibits hereto, confidential. Master Franchisee shall not publish the contents of this Agreement to any third parties except when required to obtain a lease or bank credit, or to obey a law, governmental agency or court of law.

D. Stratus Building Solutions Materials Exclusive Property of SBS – All Stratus Building Solutions materials, manuals and other confidential described in this Agreement, at all times remain the exclusive property of SBS. Master Franchisee agrees to use all confidential information strict confidence and only in connection with the sale or service of Unit Franchises and/or related products pursuant to this Master Franchise Agreement, and only while this Agreement is in effect.

#### **XV. USE & OWNERSHIP OF NAMES & TRADEMARKS**

A. Use of Stratus Building Solutions Name Required – Unless otherwise approved by SBS in writing, Master Franchisee must manage, market and conduct its business under the name “Stratus Building Solutions” or Stratus Building Solutions of (City)” or “Stratus of (City)” or such other names(s) that SBS may specify (hereinafter “Franchise Name”) as directed by SBS and at SBS' sole discretion. SBS reserves the right, upon reasonable notice, to amend or change the Franchise Name under which the Master Franchisee and all Unit Franchises are to be managed and marketed, and to direct Master Franchisee to assume any such new or amended Franchise Name as a condition to continuation of the Master Franchise.

A Stratus Building Solutions Mark may be used in conjunction with its formal business name, such as “John Doe d/b/a/ Stratus Building Solutions” or “ABC Inc. d/b/a/ Stratus”. Master Franchisee

may not use as part of a corporate name or other legal name, (i) any other janitorial maintenance, or cleaning services name in conjunction with their formal name, i.e. such as “ABC Custodial”, “ABC Maintenance”, “ABC Cleaning Services” etc., (ii) a name prefix of “Stratus Building Solutions”, “Stratus”, “SBS”, or any other similarly spelled or sounding prefix, or (iii) any other trademarks, service marks or trade names. All names of the entity operating as Master Franchisee, including corporate names, business names, trade or assumed names, or other legal names must be approved by SBS prior to adoption for use. All use of the Stratus Building Solutions Marks, names, or service marks by Master Franchisee or any Unit Franchisee inure to the benefit of SBS, and all such intellectual rights and properties remain the sole property of SBS. All directory listings, advertising, web sites letterhead, or any other visual or printed matter used by Master Franchisee to communicate to anyone must conform to established Stratus standards and procedures and are subject to review and approval by Stratus prior to use and Master Franchisee agrees to submit to SBS, prior to use by Master Franchisee, samples of any and all advertising and promotional plans and materials of any type which contain in any manner any of the trade names, service marks, trademarks, slogans and logos as are now or which in the future may be approved for use by Master Franchisee.

B. Identification & Ownership of Stratus Building Solutions Marks – The names “Stratus” and “Stratus Building Solutions” including all associated artwork and logos, together with the good will of each of them (the “Stratus Building Solutions Marks”) are the sole and exclusive property of SBS. Additional names, logos and artwork may be developed and included in the “Stratus Building Solutions Marks” upon notice to Master Franchisee. Such notice will be deemed given if the new Stratus Building Solutions mark is included in any Stratus Building Solutions Operation’s Manual.

Nothing in this Agreement may be construed as an assignment or grant to Master Franchisee of any right, title, or interest in or to any Stratus Building Solutions Marks it being understood that all rights relating thereto are reserved by SBS except as specifically provided in this Agreement. Nothing in this Agreement shall be construed as an assignment, grant, or license to Master Franchisee or any Unit Franchisee of any right, title, or interest in any trade names, trademarks, services marks, trade symbols, emblems, signs, slogans, insignia, or copyrights not designated by this Master Franchise Agreement as licensed to Master Franchisee, which may be developed by SBS for use with other franchise systems for the sale of products or services at any location. Master Franchisee recognizes the great value of the good will associated with the Franchise Name and acknowledges that the Franchise Name and all rights therein and goodwill pertaining thereto belong exclusively to SBS. Master Franchisee agrees that every use of the Franchise Name shall inure to the benefit of SBS and that Master Franchisee shall not at any time acquire any rights in the Franchise Name. Master Franchisee agrees that it will not, while this Agreement is in effect or thereafter, attack the title or any rights of SBS in and to the Franchise Name or attack the validity of this license for the use of the Franchise Name or do anything which would jeopardize or diminish SBS’ rights to or the value of the Franchise Name.

C. No Modification of Stratus Building Solutions Marks, Logos or Artwork – Master Franchisee agrees not to alter or modify any Stratus Building Solutions Mark or associated artwork or logo and must submit to Stratus Building Solutions plans, drawings, or samples of any signs, decals, or outdoor advertising and copies of all advertising, brochures, directory listings and other printed matter or any proposed use of any of the Stratus Building Solutions Marks to SBS for review and approval as to their compliance with Stratus Building Solutions standards and policies prior to their use, dissemination or publication. Such approval will not be unreasonable withheld.

D. Non-Ownership of Marks -- Master Franchisee acknowledges that it has no right, title or interest in or to any Stratus Building Solutions Marks, except for Master Franchisee’s privilege and license during the term hereof to display and use the marks. Master Franchisee acknowledges that Master

Franchisee now asserts no claim and later may assert no claim to any goodwill, reputation or ownership of the marks by virtue of Master Franchisee's licensed or franchised use any of them.

Every Master Franchisee name or mark that includes any of the Stratus Building Solutions' Marks, whether in whole or in part, is the sole property of SBS. Every Master Franchisee name regardless of how or where it is used, and whether or not it is used in conjunction with any artwork or logo that is designed or created by the Master Franchisee, is the property of SBS. Master Franchisee may not register any name or mark that includes any of Stratus Building Solutions Marks, in whole or in part, without SBS prior written consent, which consent may be withheld in SBS' sole discretion without cause or justification. Every website URL that includes any of Stratus Building Solutions Marks, in whole or in part, must be registered to SBS at Master Franchisee's expense and must comply with all specifications and standards set forth by SBS for website design and use, and must be approved by SBS.

E. Acts in Derogation of the Marks – Master Franchisee agrees that Master Franchisee shall not do or permit any act or thing to be done in derogation of any of the rights of SBS in connection with its marks, either during the term of this Agreement or after, and that Master Franchisee shall use the marks only for the uses and in the manner licensed or franchised or both under, and as provided in, this Agreement.

F. Prohibition Against Disputing Franchisor's Rights – During or after the term of this Agreement, Master Franchisee agrees not to dispute or impugn, in any way, the validity of the Marks, or the rights of SBS to them, or the rights of SBS, or other Stratus Building Solutions Master Franchisees, to use them.

G. Use of Marks –

1. Except as expressly permitted in this Agreement or in the Stratus Building Solutions operating manuals, Master Franchisee may not erect or display any signs, or display any trademarks, logo-types, symbols or service marks in, upon, or in connection with Master Franchisee's operation without SBS' prior written approval.

2. Master Franchisee may use Stratus Building Solutions' marks to promote, market and operate its Master Franchise. SBS fully anticipates that Master Franchisee will use Stratus Building Solutions Marks to promote, market and operate the business licensed under this Agreement by using such symbols in marketing and advertising materials, signs, and displays. But such use shall not, in any manner, bring discredit upon Stratus Building Solutions, the System, the Master Franchisee or any Unit Franchisee. Such promotional efforts may not include the use of Stratus Building Solutions marks on any product or item (such as wearing apparel) offered for sale by Master Franchisee, without SBS' prior written permission, for which a separate royalty may be charged. Any such products which may be associated with Stratus Building Solutions, the Master Franchisee or any Unit Franchisee which are not purchased by or through SBS will be subject to specifications and quality standards as established from time to time by SBS in its sole discretion.

3. Upon the termination of this Agreement for any reason, Master Franchisee agrees to immediately deliver and surrender up to SBS each and all of the marks and any physical objects bearing or containing any of those marks. Alternatively, at Master Franchisee's election, Master Franchisee shall obliterate or destroy any service marks or trademarks in Master Franchisee's possession.

H. Non-Use of Trade Name – If Master Franchisee is an entity (e.g. a corporation or limited liability company), its names may not use or include any Stratus Building Solutions Marks or any words or symbols that are confusingly similar to any of them, in whole or in part.

I. Assumed Name Registration – IF Master Franchisee is required to do so by any statute or ordinance, Master Franchisee must promptly, upon the execution of this Agreement, file with applicable government agencies or offices a notice of Master Franchisee’s intent to conduct Master Franchisee’s business under the Stratus Building Solutions Marks. Promptly upon the expiration or termination of this Agreement, regardless of the reason, Master Franchisee must execute and file such documents as may be necessary to revoke or terminate such assumed name registration, and if Master Franchisee fails to promptly execute and file such documents as may be necessary to effectively revoke and terminate such assumed name registration, Master Franchisee hereby irrevocably appoints SBS as Master Franchisee’s attorney-in-fact to do so for and on behalf of Master Franchisee.

J. Telephone Numbers & Listings – Master Franchisee acknowledges there will be substantial confusion in the mind of the public if, after the expiration nor termination of this Agreement, Master Franchisee continues to use the telephone number(s) used by Master Franchisee in conjunction with any business conducted under this Agreement whether or not listed in any telephone directory (including “yellow pages”). Therefore, Master Franchisee agrees to promptly assign its rights to all phone numbers used or listed in conjunction with any business conducted under this Agreement. Immediately after the expiration or termination of this Agreement for any reason whatsoever, Master Franchisee must direct every telephone company or other service provider the Master Franchisee to transfer the telephone number listed for the Master Franchisee in the then-current yellow pages of any telephone directory, to SBS or to such person and at such location as SBS directs. If Master Franchisee fails to promptly so direct the telephone company, Master Franchisee hereby irrevocably appoints SBS as his attorney-in-fact to direct the telephone company to make such transfer.

K. Trademark Changes – From time to time, in the Operations Manual, SBS may modify its marks. Master Franchisee shall accept, use and display, as may be applicable, such modified marks in accordance with the procedures, rules and regulations contained in the Operation’s Manual, as though such modifications were specifically set forth in this Agreement.

L. Defense of Mark by SBS – If Master Franchisee receives notice or is informed or learns of any claim, suit or demand against Master Franchisee on account of any alleged infringement, unfair competition, or similar matter relating to Master Franchisee’s use of the marks, Master Franchisee shall promptly notify SBS of such claim, suit or demand. Except as herein expressly provided, upon receiving such notice, SBS shall promptly take action as may be necessary to protect and defend Master Franchisee against any such claim by any third party and shall indemnify Master Franchisee against any loss, cost or expense incurred in connection with such claim. Master Franchisee shall not settle or compromise any such claim without the prior written consent of SBS. SBS shall have the right to defend, compromise or settle any such claim at SBS’ sole cost and expense, using attorneys of its own choosing, and Master Franchisee agrees to cooperate fully with SBS in connection with the defense of any such claim. Master Franchisee irrevocably grants authority and power of attorney to SBS to defend or settle all of such claims, demands or suits. Master Franchisee may participate at Master Franchisee’s own expense in such defense or settlement, but SBS’ decision with regard to such defense or settlement shall be final. Notwithstanding the foregoing, SBS shall have no obligation to defend or indemnify Master Franchisee pursuant to this section if the claim suit or demand against Master Franchisee arises out of or relates to Master Franchisee’s use of the marks in violation of the terms of this Agreement.

M. Prosecution of Infringers – If Master Franchisee receives notice or is informed or learns that any third party, which Master Franchisee believes to be unauthorized to use Stratus Building Solutions’ marks, is using any of the marks or any variant of them, Master Franchisee shall promptly notify SBS of the facts relating to such alleged infringing use. Thereupon, SBS, in its sole discretion, shall determine whether or not it wishes to take any action against such third person on account of such alleged infringement of Stratus Building Solutions’ marks. Master Franchisee shall have no right to make any

demand against any such alleged infringer of Stratus Building Solutions' marks or to prosecute any claim of any kind or nature whatsoever against such alleged infringer of Stratus Building Solutions' marks for or an account of such infringement.

## **XVI. FRANCHISOR OBLIGATION & FRANCHISEE TRAINING**

SBS covenants and pledges to:

Provide the Master Franchisee, prior to opening, with the new office materials package as outlined in the Stratus Building Solutions Disclosure Document.

Provide a comprehensive Operational Training Program that will include training at the SBS principle business office inclusive of the following described training sessions: The Program will begin with an extensive training session at the SBS principle business office, which will include Stratus Building Solutions methods and procedures for franchising, sale and management of unit franchise sales, and operations using formal instruction, self-study materials and practical training.

Training sessions and Master Franchise meetings and seminars (annual/regional) will be held by SBS from time to time. Master Franchisee understands that attendance at these sessions is mandatory and agrees to attend and be responsible for its travel and lodging cost in connection therewith.

Have personnel available on an ongoing basis during normal business hours to provide technical assistance, consultation, and advice on marketing and operations procedures by telephone and/or computer. Additional consultation at Master Franchisee's business premises is available upon request at the Master Franchisee's expense.

Advise Master Franchisee on all appropriate facets of the Stratus Building Solutions system, and to keep Master Franchisee advised of all pertinent new developments in the janitorial franchising industry as well as procedures for improved efficiency.

Inform Master Franchisee of promotional materials, sales, and services manuals, and other materials as they are developed that would be relevant to the operation of a Stratus Franchise.

SBS retains the right to assume responsibility for computerized or manual billing and accounting services to business serviced by Master Franchisee or its franchisees, under the following circumstances:

1. If Master Franchisee fails to make prompt or timely payment of any monies owed to SBS as required herein; or,
2. If Master Franchisee fails to make prompt and timely payment of any monies owed to any suppliers of goods and services or any creditors, where the amount due and owing is not disputed; or
3. If Master Franchisee fails to comply with terms of any unit franchise agreement to which it is a party and withhold monies due to the unit franchisee, after unit franchisee has made a written request to Master Franchisee; or
4. If SBS has any other reason to believe that Master Franchisee is retaining funds in its possession or control in conflict with the terms of this Agreement or any unit franchise agreement.

In the event any of the above circumstances exist, SBS shall have the right to request in writing that Master Franchisee act within ten (10) days of said request to properly distribute all funds previously collected. If Master Franchisee does not fully comply with SBS' request, SBS may take all necessary steps to ensure that billing of accounts is performed and that each unit Franchisee and SBS receive all monies to which they are entitled. If SBS or its designee does perform any computerized or manual billing and accounting services to business serviced by Master Franchisee or its franchisees, SBS shall, on or before the last working day of each month, disburse to each unit franchisee or to the Master Franchisee all monies due each party, respectively, from actual collections made during the month prior to the month of payment, after first deducting from any monies collected, the costs incurred by SBS to perform said computerized or manual billing and accounting services.

## **XVII. DEFAULT AND TERMINATION**

A. Termination For Good Cause Upon 90 Day Notice – SBS may terminate this Agreement for “good cause” if: (1) SBS gives the Master Franchisee a written notice of default explaining the default and reason(s) for termination at least ninety (90) days in advance of termination, and (2) the Master Franchisee has not cured the default or corrected the reasons stated for termination in the notice of default within sixty (60) days from receiving said notice. For this purpose “good cause” means failure by the Master Franchisee to substantially comply with the material and reasonable franchise requirements imposed by SBS including, but not limited to:

1. The bankruptcy or insolvency of the Master franchisee;
2. Assignment for the benefit of creditors or similar disposition of the assets of the Master Franchise business.
3. Abandonment of the Master Franchise business.
4. Conviction of a plea of guilty or no contest to a charge of violating any law relating to the Master Franchise business; or
5. Any act by or conduct of the Master Franchisee which materially impairs the good will associated with the Franchisor's trademark, trade name, service mark, logotype or other commercial symbol.

B. Termination Upon Material Default – A material default occurs, and SBS therefore has the right to terminate this Agreement without opportunity to cure, effective upon notice to Master Franchisee, if any of the following occur:

1. Master Franchisee abandons its Stratus Building Solutions Master Franchise business;
2. Master Franchisee or any Owner is convicted of any crime or offense directly related to the business conducted pursuant to this Agreement; or
3. Master Franchisee fails to cure a default under this Master Franchise Agreement which materially impairs the good will associated with the Franchisor's trade name, trademark, service mark, logotype or other commercial symbol after the Master Franchisee has received written notice to cure of at least 24 hours in advance thereof.

C. Notice Required By Law – If any valid applicable law or regulation of a governmental authority having jurisdiction over this Master Franchise and the parties, limits SBS’ rights of rescission or termination under this Agreement or requires longer notice periods than those set forth above, this Agreement is deemed amended to conform to the minimum notice periods or restrictions upon rescission or termination required by such laws and regulations. SBS is not, however, precluded from contesting the validity, enforceability or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or to its rescission or termination.

## **XVIII. OBLIGATIONS & RIGHTS UPON TERMINATION**

A. Obligations After Termination – When used in this Section the term “termination” (as in “the termination of this Agreement”) means the end of this Agreement regardless of cause or reason, and includes, without limitation, termination, non-renewal and expiration of this Agreement.

Upon termination of this Agreement, whether by reason of default, lapse of time or other cause, Master Franchisee agrees to immediately discontinue the use of all Stratus Building Solutions Marks (singly or in conjunction with any other name, artwork or item) and shall not thereafter operate or do business under any name similarly spelled or sounding in prefix or as a part of any entity name or fictitious name, or in any manner that might tend to give the general public the impression that the Master Franchisee is operating as Stratus Building Solutions franchise or any business similar to an Stratus Building Solutions franchise.

Master Franchisee shall immediately return to SBS and shall not thereafter use, in any manner, or for any purpose, directly or indirectly, any of Stratus Building Solutions’ trademarks, names or proprietary information, trade secrets procedures, techniques, records or materials acquired by Master Franchisee by virtue of the relationship established by this Agreement, including, without limitation, all of the following:

1. Any manuals, bulletins, instruction sheets, including all supplements and updates there:
2. All forms, advertising matter, trademarks, devices, insignia, slogans and designs used from time to time in connection with the Master Franchisee’s business; all advertising matter, products, or writing that contain any Stratus Building Solutions trade name, logo, or copyright, as well as any information of a proprietary nature such as lists and files pertaining to customers/clients and/or to any Unit Franchisee, operational documents and similar information. All such lists, files and the information contained therein shall remain the exclusive property of SBS and shall upon termination immediately be surrendered to SBS, and all use of such information thereafter by anyone other than SBS is prohibited.
3. All telephone numbers used under the names granted for use in this Agreement, or any similar designation that relates to SBS, and whether or not listed in any telephone directory; which the Master Franchisee shall assign to SBS executing all forms required by any telephone service provider for that transfer, and if the Master Franchisee fails to promptly so direct the telephone company, Master Franchisee hereby irrevocably appoints SBS as his attorney-in-fact to direct the telephone company to make such transfer.
4. All files and records, franchise agreements, and any other documents or information related to the operation of the Master Franchise business and its Unit Franchisees, including without limitation, all Unit Franchisee lists, customer/client lists (with contact information, including names, addresses and phone numbers) and copies of all customer/client contracts.
5. All funds held for the benefits of a Unit Franchisee.

6. All keys to buildings, security passes and/or security codes, and any other means of access to a customer's property.

Master Franchisee agrees that the above-named items revert to, and are, the property of SBS. Until Master Franchisee complies with every obligation of this Agreement (including all post-termination responsibilities), and SBS notifies the Master Franchisee that it has fulfilled those obligations this Agreement remains in full force and effect with regard to Master Franchisee's obligations.

B. Outstanding Fees & Monetary Obligations – At termination, Master Franchisee must also pay, in full, all amounts owed to SBS at the date of termination and surrender any and all equipment belonging to SBS.

C. Termination of Unit Franchise Agreements – If this Master Franchise Agreement is terminated, SBS may, at SBS' sole option, immediately succeed, or designate and assign to a replacement master franchisee, the Master Franchisee's rights to manage and enforce all of the terms and conditions of a Unit Franchise Agreement, without notice to Master Franchisee or the Unit Franchisee. Should SBS succeed to the Master Franchisee's rights under any Unit Franchise Agreement, then the Master Franchisee's rights to benefit or receive revenues/royalty fees from the Unit Franchisee will simultaneously terminate. SBS may, but is not required to assume any of the Master Franchisee's obligations or liabilities to any Unit Franchisee. Should SBS elect not to assume or assign Master Franchisee's rights to manage and enforce all of the terms and conditions of a Unit Franchise Agreement, Master Franchisee must immediately terminate its Unit Franchisee Agreements.

D. Penalty for Non-Compliance – If the Master Franchisee has proclaimed to have terminated or not renewed the Master Franchise agreement and refused to surrender the items described herein, the parties agree that the Master Franchisee shall pay to SBS Five Hundred Dollars (\$500.00) per day for each day that it has not complied with foregoing paragraph. The parties acknowledge that damages for Master Franchisee's failure to adhere to the foregoing paragraph are difficult to ascertain and therefore agree that this amount shall be payable as liquidated damages and not as a penalty.

E. Attorney-In-Fact – If Franchisee fails or refuses to do so, SBS may execute, in the Master Franchisee's name and on the Master Franchisee's behalf, any and all documents necessary to cause the discontinuance of Master Franchisee's use of the names and marks granted Master Franchisee under this Agreement. Master Franchisee hereby irrevocably appoints SBS as Franchisee's attorney-in-fact to do so.

F. Continuing Obligation – All of SBS' rights and entitlements under this Agreement survive its termination or expiration, and SBS does not waive or release any rights it has to enforce this Agreement by acknowledging or accepting such termination or expiration. The termination or expiration of this Agreement does not relieve the Master Franchisee from any of its obligations under this Agreement, whether incurred, discovered or vested before or after such termination or expiration. Similarly, the Master Franchisee's obligations under this Agreement survive any termination or expiration.

## **XIX. DISPUTE RESOLUTION**

### **A. Dispute Resolution by Mediation**

The parties have reached this Agreement in good faith and in the belief that it is mutually advantageous to them. In the same spirit of cooperation, Franchisor agrees to try to resolve any and all disputes, controversies or claims that may arise between them concerning or related to this Agreement, its performance, and the relationship between Franchisor and Master Franchisee first through mediation.

Except as provided in Section VI.D and Section XVIII hereof or relating to controversies arising from the Marks, either party shall submit such controversy or claim to non-binding mediation before the American Arbitration Association or other mutually agreeable mediator, within twenty (20) days after such dispute, controversy or claim has arisen. Both parties shall execute a confidentiality agreement not to disclose the fact of mediation, its procedures, information discovered or results to anyone other than its professional advisors who shall also agree to maintain such confidentiality reasonably satisfactory to us. Upon submission, the obligation to attend mediation will be binding on both parties, and a condition of mediation is that it shall be held and concluded within thirty (30) days after it has been requested. Each party will bear its own attorney fees and costs with respect to the mediation, except the fees for the mediation will be split equally. Good faith participation in these procedures to the greatest extent reasonably possible, despite lack of cooperation by one or more of the other parties, is a precondition to maintaining any legal action to interpret or enforce this Agreement. No party shall initiate or participate in any class action litigation claim against any other party bound hereby.

B. Arbitration

i. The parties hereto agree that, except for controversies, disputes, or claims related to or based on improper use of the Marks or in connection with Sections VI.D or XVIII, all controversies, disputes, or claims between us and our affiliates, and our and their respective members, officers, managers, agents, and/or employees, and you (and/or your owners, managers, guarantors, affiliates, and/or employees) arising out of or related to:

1. this Agreement or any other agreement between you and us;
2. our relationship with you;
3. the validity of this Agreement or any other agreement between you and us; or
4. any Stratus System Standard;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association. The arbitration proceedings will be conducted by one arbitrator and, except as this Subsection otherwise provides, according to the then current commercial arbitration rules of the American Arbitration Association. Any questions regarding the arbitrability of any claim is to be determined by the arbitrator and is binding upon the parties. All proceedings will be conducted at a suitable location chosen by the arbitrator in or nearest the city where our principal business address is then located. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction.

ii. The arbitrator has the right to award or include in his or her award any relief which he or she deems proper, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief, and attorneys' fees and costs, provided that the arbitrator may not declare any Mark generic or otherwise invalid or, except as expressly provided in Subsection XVIII.G below, award any damages against either party.

iii. We and you agree that any such dispute, controversy or claim between us must be submitted to arbitration no later than one (1) year after it has arisen, and that if it is not so

submitted, we shall both regard it as time-barred under law. We and you further agree that, in any arbitration proceeding, each must submit or file any claim which would constitute a compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim which is not submitted or filed as required is forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either you or us.

iv. We and you agree that arbitration will be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between us and our affiliates, and our and their respective members, officers, managers, agents, and/or employees, and you (and/or your owners, managers, guarantors, affiliates, and/or employees) may not be consolidated with any other arbitration proceeding between us and any other person.

v. Despite our and your agreement to arbitrate, we and you each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction.

vi. The provisions of this Section XXVII are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

vii. Limitation of Parties. Franchisor, Franchisee and its principals may only seek damages or any remedy under law or equity for any claim against each other or their successors, assigns or guarantors arising out of or relating to the Agreement or the relationships of the parties. Franchisor and Franchisee agree that affiliates, shareholders, members, directors, officers, employees, agents and representatives will not be personally liable or named as a party in any litigation proceeding arising out of or relating to this Agreement or the relationship among the parties.

#### C. Governing Law and Venue

This agreement and the franchise are governed by the law of the state in which the franchise is located, except to the extent this agreement or any dispute is governed by the Lanham Act or other federal law. In the event of a dispute that cannot be resolved between any of the parties hereto or otherwise arising in connection with this Agreement or the franchise relationship created pursuant to this Agreement, exclusive venue for any action or legal proceeding will be in the federal or state courts situated in the state in which your franchise is located, and the parties (and their principals) hereby consent irrevocably to the exclusive jurisdiction of such courts.

#### D. Attorney's Fee and Costs

If Franchisor incurs legal fees or other expenses as a result of any breach by Franchisee of its obligations under this Agreement, then Franchisor will be entitled to recover from Franchisee the amount of all such legal fees and other expenses. Except as otherwise provided in this section, if either party is required to enforce this Agreement in a judicial or other legal proceeding, the party prevailing in such proceeding will be entitled to reimbursement of its costs and expenses, including reasonable accounting fees, expert witness fees and legal fees.

**E. WAIVER OF CERTAIN DAMAGES**

**THE PARTIES HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) AGAINST FRANCHISOR, ITS AFFILIATES, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, AGENTS, REPRESENTATIVES, INDEPENDENT CONTRACTORS, SERVANTS AND EMPLOYEES, IN THEIR CORPORATE AND INDIVIDUAL CAPACITIES, ARISING OUT OF ANY CAUSE WHATSOEVER. EACH OF FRANCHISEE AND PRINCIPALS, IF ANY, AGREE THAT IN THE EVENT OF A DISPUTE, FRANCHISEE AND EACH PRINCIPAL IS LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED.**

**F. LIMITATIONS OF CLAIMS**

**ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES WILL BE BARRED UNLESS A PROCEEDING FOR RELIEF IS COMMENCED WITHIN ONE (1) YEAR FROM THE DATE ON WHICH THE PARTY ASSERTING SUCH CLAIM KNEW OR SHOULD HAVE KNOWN OF THE FACTS GIVING RISE TO SUCH CLAIMS.**

**G. WAIVER OF JURY TRIAL**

**IN THE EVENT ANY PARTY INITIATES LITIGATION FOR ANY CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES, INCLUDING THOSE THAT INCLUDE OTHER PARTIES OR CLAIMS, ALL PARTIES WAIVE THEIR RIGHT TO A TRIAL BY JURY. THIS WAIVER APPLIES TO ALL CAUSES OF ACTION THAT ARE OR MIGHT BE INCLUDED IN SUCH LITIGATION, INCLUDING BUT NOT LIMITED TO CLAIMS RELATED TO THE ENFORCEMENT OR INTERPRETATION OF THIS AGREEMENT, ALLEGATIONS OF STATE OR FEDERAL STATUTORY VIOLATIONS, FRAUD, MISREPRESENTATION, OR SIMILAR CAUSES OF ACTION, AND IN CONNECTION WITH ANY LEGAL ACTION INITIATED FOR THE RECOVERY OF DAMAGES BETWEEN FRANCHISEE AND PRINCIPALS AND FRANCHISOR.**

H. All provisions of this Section XXVII survive termination or expiration of this Agreement.

**XX. GENERAL/MISCELLANEOUS**

A. Definitions – For convenience and clarity, certain terms used throughout this Agreement have the following definition (which applies whether or not the term is capitalized):

1. “Owner” includes, without limitation, a sole proprietor, partner stockholder and limited liability member or owner, or other person with an ownership interest, whether held directly or for the benefit of another.

2. “Majority Owner” means any person who owns 50% or more of a partnership or owns 50% or more of any entity, i.e. 50% or more of the voting stock or other voting ownership interest or indicia of ownership or control whether owned/held directly or beneficially.

3. "Person" includes any natural person, trust (or trustee), corporation, partnership, limited liability company, or other entity.

B. SBS Right to Inspect – Master Franchisee understands and agrees that SBS may inspect any premises serviced by Master Franchisee or its Unit Franchisees at any time to ensure that the quality of service being performed is in accordance with Stratus Building Solutions standards. The Master Franchisee acknowledges that Stratus Building Solutions systems and methods continue to evolve in order to reflect the changing market and to meet new and changing customer demands, and that accordingly, variations and additions to the system may be required from time to time in order to preserve and enhance the public image of the system and to ensure the continuing operation efficiency of Franchisees generally. Accordingly, the Master Franchisee agrees that the SBS may from time to time hereafter or otherwise change the system, including, without limitation, the adoption and use of new or modified trademarks, products, services, equipment and furnishings and new techniques and methodologies relating to the preparation, sale, promotion and marketing of service and supplies. The Master Franchisee agrees to promptly accept, implement, use and display in the operation of the franchise business all such additions, modifications and changes at its sole cost and expense.

C. SBS Ownership of New Concepts – Master Franchisee agrees that if it, any of its employees or any of its franchisees licensed under this Agreement develop any new concept, process or improvement in the operation or promotion of the Franchised Business, except those concepts developed by Unit Franchisees' while conducting Additional Business Services, it will promptly notify SBS and provide SBS with all necessary information concerning same, without compensation. Master Franchisee acknowledges that any such concept, process or improvement is or becomes the property of SBS and SBS may utilize or disclose such information to other franchisees as it determines to be appropriate.

D. Maintain Safe & Clean Workplace – Master Franchisee agrees to maintain a safe and reasonably clean place of business in compliance with all governmental and industry standards and to conduct its business in a manner that would bring goodwill and public approval to itself and Stratus.

E. No Interference With Master Franchisee Prices or Discounts – Nothing in this Agreement may be construed to prevent Master Franchisee from freely setting its own prices and discounts for services and products that it may render or sell.

F. Limitation On Effect of Any Invalid Provision:

1. Should any part of this Master Franchise Agreement for any reason be declared invalid, such decision shall not affect the validity of the remaining portions, which remaining portions shall remain in force and effect as if this Agreement had been executed with the invalid portion thereof eliminated, and it is hereby declared the intention of the parties hereto that they would have executed the remaining portions of this Agreement without including herein any such part, parts, or portions which may, for any reason, hereafter be declared invalid.

2. If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of or refusal to renew this Master Franchise Agreement than is required hereunder, or the taking of some other action not required hereunder, or if under any applicable and binding law or rule of any jurisdiction, any provision of the Master Franchise Agreement or any specification, standard or operating procedure prescribed by SBS is invalid or unenforceable, the prior notice and/or other action required by such law or rule shall be substituted for the comparable provisions hereof, and SBS shall have the right, in its sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Master Franchisee agrees to be bound by any promise or covenant imposing the maximum

duty permitted by law which is comprehended within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof, or any specification, standard or operating procedure prescribed by SBS, any portion or portions which a court may hold to be unenforceable in a final decision to which SBS is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

G. Entire Agreement & Modifications Only By Written Agreement – This Agreement is the entire agreement between the parties. Any amendment or modification to this Agreement is invalid unless made in writing and signed by all the parties. Nothing in this Master Franchise Agreement or any related agreement is intended to disclaim the representations made by SBS in the franchise disclosure document that SBS furnished to you.

H. Non-Waiver – No failure of SBS to exercise any power reserved to it in this Agreement or to insist upon compliance by Master Franchisee with any obligation or condition in this Agreement, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of SBS’ right to demand exact compliance with the terms of this Agreement. Waiver by SBS of any particular default shall not affect or impair SBS’ right in respect to any subsequent default of the same or of a different nature, nor shall any delay forbearance or omission of SBS to exercise any power or right arising out of any breach or default by Master Franchisee of any of the terms, provisions or covenants of this Agreement affect or impair SBS’ rights, nor shall such constitute a waiver by SBS of any rights hereunder or rights to declare any subsequent breach or default. SBS further reserves any and all right to enforce any rights or remedies that the Master Franchisee may have under any franchise agreement signed with any unit franchisee.

I. Notices – Any notice required or permitted to be given hereunder shall be in writing and may be given by personal service or by depositing a copy thereof in the US mail certified return receipt requested, courier signature required, with postage thereon fully prepaid, in a sealed envelope addressed to Master Franchisee at Master Franchisee’s main office:

If notice is to be given to SBS, it must be sent to:

10530 Victory Blvd., North Hollywood, CA 91606, (888) 479-7575 Addresses for this purpose may be changed at any time by either party upon written notice.

J. Heading For Reference Only – The numbers and headings of paragraphs used herein are for convenience only and do not affect the substance of the paragraphs themselves.

K. Master Franchisee certifies and warrants that all Owners and spouses of Owners: (1) are listed in the attached SCHEDULE OF PRINCIPALS; and (2) that all such parties will execute all Notes, or other documents as required by SBS.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK  
SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the parties hereto have set their hands this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

SBS Franchising, Inc.:

Master Franchisee:

BY: \_\_\_\_\_

By: (Signature of Owner, Partner, or Authorized Officer)

TITLE: \_\_\_\_\_

Print Name

Social Security Number: \_\_\_\_\_

By: (Signature of Partner, Spouse, or Authorized Officer)

Print Name

Social Security Number: \_\_\_\_\_

By: (Signature of Partner, Spouse, or Authorized Officer)

Print Name

Social Security Number: \_\_\_\_\_

COMPLETE IF FOR CORPORATION:

\_\_\_\_\_  
(Corporate Name)

\_\_\_\_\_  
(Title of Authorized Officer)

Federal Tax ID#: \_\_\_\_\_

ACCEPTED by the Home Office of Franchisor on this \_\_\_\_\_ day of \_\_\_\_\_

BY: \_\_\_\_\_

BY: \_\_\_\_\_

ITS: \_\_\_\_\_  
(Authorized Officer)

ITS: \_\_\_\_\_  
(Authorized Officer)

STRATUS BUILDING SOLUTIONS  
MASTER FRANCHISE AGREEMENT – EXHIBIT A  
NON-COMPETITION AGREEMENT

I, \_\_\_\_\_, agree that during my association with SBS Franchising, Inc. (“SBS”) and for two (2) years immediately thereafter, and within the Non-Compete Area (defined below) I will not:

1. Divert, solicit, interfere with, misappropriate, take away or attempt to divert or take away any source of Stratus Building Solutions business or revenue, Stratus Building Solutions customer or Stratus Building Solutions unit franchisee.

2. Perform any services for, engage in or acquire, become an employee of, have any financial, beneficial, or equitable interest in, or have any interest whatsoever in any business which:

(a) perform any type of cleaning and/or maintenance related services, including, but not limited to, commercial, industrial, institutional and residential cleaning services; or

(b) is similar to the Stratus Building Solutions’ janitorial, cleaning and maintenance system and business described in any of the following: this Master Franchise Agreement, an Stratus Building Solutions Unit Franchise Agreement or the Stratus Building Solutions Operating Manual, all as amended or revised from time to time.

(c) sells, leases or distributes supplies and equipment related to any of the above.

3. Employ or seek to employ any person, who is at that time, employed by SBS or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

4. Induce any person to leave his or her employment with SBS or any of its affiliates, any Stratus Building Solutions Master Franchisee or Stratus Building Solutions Unit Franchisee.

5. Perform or contribute to any other act injurious or prejudicial to the goodwill associated with Stratus Building Solutions or its Marks

The “Non-Compete Area” means: (1) within one hundred (100) miles of the Master Franchisee’s Territory and (2) within one hundred (100) miles of any other Stratus Building Solutions Master Franchisee territory, any Stratus Building Solutions Unit Franchisee or other business which is franchised, owned, operated or managed by or under the direction or auspices of SBS or any of its affiliates which is within one hundred (100) miles of the Master Franchisee’s Territory.

For clarity, Master Franchisee’s support of Unit Franchisees’ Additional Business Services during the term of Unit Franchisees’ Franchise Agreements, will not qualify as a violation of any of the above.

I acknowledge that each of my obligations in this Agreement are reasonable and necessary to protect SBS’ legitimate business interests. I understand that breaking any of my promises or obligations will irreparably and continually damage SBS for which money damages may not be adequate.

Consequently, if I violate any of my promises in this Agreement, or SBS has reason to believe that I am about to violate this Agreement, SBS will be entitled to both: (1) a preliminary or permanent injunction

to prevent the continuing harm to SBS (and/or any of its Master Franchisees or Unit Franchisees), and (2) money damages insofar as they can be determined. An injunction ordering me to stop any activities that may violate this Agreement will not prevent me from earning a living. I will pay SBS its costs and expenses of enforcing this Agreement, including actual attorney fees, whether or not litigation is actually commenced.

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Signature

STRATUS BUILDING SOLUTIONS  
MASTER FRANCHISE AGREEMENT – EXHIBIT B  
SCHEDULE OF PRINCIPALS

ANY OTHER PERSON NOT LISTED IN THIS AGREEMENT WHO IS A SPOUSE, PARTNER, AN OFFICER, DIRECTOR OR SHAREHOLDER OF MASTER FRANCHISEE:

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

Address: \_\_\_\_\_

Social Security Number: \_\_\_\_\_ Telephone: \_\_\_\_\_

Relationship: \_\_\_\_\_

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

Address: \_\_\_\_\_

Social Security Number: \_\_\_\_\_ Telephone \_\_\_\_\_

Relationship: \_\_\_\_\_

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

Address: \_\_\_\_\_

Social Security Number: \_\_\_\_\_ Telephone \_\_\_\_\_

Relationship: \_\_\_\_\_

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

Address: \_\_\_\_\_

Social Security Number: \_\_\_\_\_ Telephone \_\_\_\_\_

Relationship: \_\_\_\_\_

EXHIBIT E  
PROMISSORY NOTE

City of Los Angeles

State of California

\$ \_\_\_\_\_, 20\_\_.

FOR VALUE RECEIVED, the undersigned \_\_\_\_\_ (“Franchisee”) promises to pay to the order of SBS Franchising, Inc. (“Franchisor”) of 10530 Victory Blvd., North Hollywood, CA 91606, (888) 479-7575 or at such other place or to such other party or parties as a holder of this Note may from time to time designate, in lawful money of the United States of America, the principal sum of \_\_\_\_\_ dollars (\$ \_\_\_\_\_) which interest from the date hereof at the rate of 12% per annum on the unpaid balance of said principal sum until paid.

The undersigned further promises to pay that principal sum and interest in installments as follows:

\_\_\_\_\_ dollars (\$ \_\_\_\_\_) on \_\_\_\_\_ and \_\_\_\_\_ as a lump sum or successive monthly installments of \_\_\_\_\_ dollars (\$ \_\_\_\_\_) each on the same day of each succeeding calendar month until all such payments have been made, on which date the entire balance of principal and interest unpaid shall be due and payable.

This note may be prepaid without penalty.

It is agreed that each installment, when paid, shall be credited first to interest then due and the remainder to principal, and interest shall cease upon the principal when so credited. Should the interest not be so paid, it shall, at the sole option of the holder of this Note, become a part of the principal and thereafter bear like interest as the principal.

Should default be made in the payment of any installment of principal or interest when due, then the whole sum of principal and interest shall become immediately due and payable at the option of the holder of this Note, with interest from the date of such default at the rate of twelve percent (12%) per annum until paid on the entire unpaid principal and interest.

Furthermore, this Note and all other obligations, direct or contingent, of Franchisee or any endorser hereof to Franchisor, shall become due and payable immediately at the option of the holder of this Note, without demand or notice upon the happenings of any of the following events:

1. The failure to pay when due any installment of the principal and interest of this Note.
2. The failure to timely keep or properly perform any of the recitals, covenants, conditions, representations, warranties, obligations or guarantees contained in any agreement between the Franchisor and Franchisee.
3. The levy of any attachment, execution or any other process against all or any part of the assets of Franchisee.
4. The failure to pay, withhold, collect, remit any tax or tax deficiency when assessed or due.

5. The suspension of the business of Franchisee, or the making of a general assignment for the benefit of creditors, or the commencement of proceeding for dissolution or liquidation, or the commencement of proceeding under any bankruptcy, insolvency, readjustment, or debt or liquidation, law or statute of the federal or state governments, or the adjudication as bankrupt or insolvent, or the involuntary appointment of a receiver, or applications therefore, or the making of a bulk sale or the giving of notice of intention to do so.

6. At any time when, in the sole opinion of the holder hereof, Franchisee's financial responsibility shall become impaired or unsatisfactory.

In the event an attorney is employed by the holder of this Note to enforce any of its terms, Franchisee shall pay reasonable costs and attorneys' fees in connection therewith, and such amount shall be secured hereby.

This Note is to be construed in accordance with the laws of the State of the state in which your franchise is located.

Franchisee:

Shareholders or Partners of Franchisee:

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Social Security Number

EXHIBIT F

LIST OF MASTER FRANCHISEES

State	Phone Numbers	Master Franchisee	Address
AZ	303-807-8151	Channen Smith	5009 E. Washington St., Suite 120 Phoenix, AZ 85034
CA	818-981-1700	Jim Smith <i>(4 Territories)</i>	10530 Victory Blvd. North Hollywood, CA 91606
CA	916-945-8448	Stevan Butcher	919 Reserve Dr. Ste 123 Roseville, CA. 95678
CA	303-807-8151	Channen Smith	9888 Carroll Centre Rd Suite 110 San Diego, CA. 92126
CA	408-689-7228	Patrick Doyle	920 Saratoga Ave, Suite 209 San Jose, CA. 95129
CO	719-201-3698	Jim Vandyke	4360 Montebello Drive, Suite 1000 Colorado Springs, CA 80918
CO	303-807-8151	Channen Smith	7010 Broadway, Suite 315 Denver, CO 80221
DE	302-213-0210	Josh Merritt	625 Dawson Dr. Suite D Newark, DE 19713
HI	808-282-7678	Aaron Kahaloa	PO Box 236020 Honolulu, HI 96823
IA	303-807-8151	Channen Smith	801 Ashworth Road West Des Moines, IA 50265
KS	303-807-8151	Channen Smith	8735 Rosehill Rd. #250 Lenexa, KS 66215
LA	504-308-3460	Michael Seiler	4430 S 1-10 Service Road W, Suite 101 Metairie, LA. 70001
NE	303-807-8151	Channen Smith	6910 Pacific St, Suite 208 Omaha, NE 68106
NJ	973-204-5997	Donald Gartner	208 Passaic Ave, Suite 4 Fairfield, NJ 07004
NY	631-807-5799	Rick Barren	510 Broadhollow Road, Suite 306 Melville, NY 17747
NC	864-380-9098	Ralph Sizemore	420 E Park Avenue, Suite 302 Greenville, SC 29601
OH	440-627-6200	Tom Grassi and Tim Tilton	7976 Broadview Road Suite 100 Broadview Heights, OH 44147
OH	513-260-0804	Mark Stocker	11260 Cornell Park Drive, Suite 708 Cincinnati, OH 45242
PA	215-272-5536	John & Bonnie Coleman	120 Gibraltar Road, Suite 109 Pennsylvania Business Camp Horsham, PA 19044
SC	864-380-9098	Ralph Sizemore	420 E Park Avenue, Suite 302 Greenville, SC 29601
TN	404-402-8415 615-924-5394	David Smith	One Vantage Way, Suite B100 Nashville, TN 37228

TX	512-271-4594 512-271-4595	Greg Fishman (2 Territories)	7719 Wood Hollow Drive, Suite 156 Austin, TX 78731
UT	801-440-4636	Shauna Sharpsteen and Emily Thomas	5258 South Pinemont Drive, Suite B-280 Salt Lake City, UT 84123

LIST OF FORMER FRANCHISEES:

None.

The list above is every franchisee who ceased to do business under the franchise agreement or had an outlet terminated, canceled, transferred or not renewed within the last fiscal year, or who has not communicated with the franchisor within 10 weeks of the application date.

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

EXHIBIT G

STATE ADDENDUM TO MASTER FRANCHISE AGREEMENT

**ADDENDUM TO THE SBS FRANCHISING,  
INC. MASTER FRANCHISE AGREEMENT  
FOR ILLINOIS FRANCHISEES**

This Addendum to the SBS Franchising, Inc. a/k/a Stratus Building Solutions Master Franchise Agreement (“Agreement”) dated \_\_\_\_\_ between SBS Franchising, Inc. (“SBS,” “Stratus” or “Franchisor”) and \_\_\_\_\_ (“Master Franchisee”) is entered into simultaneously with the execution of the Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Agreement. This Addendum is being executed because: **(A)** the offer or sale of a franchise to Master Franchisee was made in the State of Illinois; **(B)** Master Franchisee is a resident of the State of Illinois; and/or **(C)** part or all of the Territory is located in the State of Illinois.
  
2. The following sentence is added to the end of Section I:  
  
Representations in the Agreement are not intended to, nor shall they act as a release, estoppel, or waiver of any liability incurred under the Illinois Franchise Disclosure Act and Rules.
  
3. The following paragraphs are added to the end of Section XIX:  
  
D. Notwithstanding anything to the contrary in the Agreement, Franchisor and Master Franchisee may file suit in a court in the State of Illinois for claims arising under the Illinois Franchise Disclosure Act. To the extent of any inconsistency of this Agreement with the Illinois Franchise Disclosure Act and related rules, the Illinois Franchise Disclosure Act and related rules shall govern the Master Franchise Agreement.  
  
E. Any condition, stipulation, or provision of the Agreement purporting to bind any person acquiring any franchise to waive compliance with any provision of this Illinois Franchise Disclosure Act, 815 ILCS 705/1-44, or any other law of the state of Illinois is void.
  
4. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Agreement.

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INTENTIONALLY LEFT BLANK]

**ATTEST:**

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

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

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

**FRANCHISOR:  
SBS FRANCHISING, INC.**

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

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

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

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

**ATTEST/WITNESS:**

\_\_\_\_\_

\_\_\_\_\_

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

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

**MASTER FRANCHISEE:**

\_\_\_\_\_

\_\_\_\_\_

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

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

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

**ADDENDUM TO THE SBS FRANCHISING,  
INC. MASTER FRANCHISE AGREEMENT  
REQUIRED FOR MARYLAND  
FRANCHISEES**

This Addendum to the SBS Franchising, Inc. a/k/a Stratus Building Solutions Master Franchise Agreement (“Agreement”) dated \_\_\_\_\_ between SBS Franchising, Inc. (“SBS,” “Stratus” or “Franchisor”) and \_\_\_\_\_ (“Master Franchisee”) is entered into simultaneously with the execution of the Agreement.

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

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

Representations in the Agreement are not intended to, nor shall they act as a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

3. Section IV.A. of the Franchise Agreement is deleted in its entirety and replaced with the following:

A. The initial franchise fee is: \_\_\_\_\_ and is payable as follows:

In full, twenty-four hours after the opening of the Stratus Building Solutions Master Franchise.

This franchise fee is non-refundable and is in addition to any other payments, including royalties, that are payable under this Agreement.

4.

5. The following paragraph is added to the end of Section XIX:

D. Notwithstanding anything to the contrary in the Agreement, Franchisor and Master Franchisee may file suit in a court in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the Master Franchise.

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

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**ATTEST:**

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

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

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

**FRANCHISOR:  
SBS FRANCHISING, INC.**

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

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

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

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

**ATTEST/WITNESS:**

\_\_\_\_\_

\_\_\_\_\_

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

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

**MASTER FRANCHISEE:**

\_\_\_\_\_

\_\_\_\_\_

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

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

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

**ADDENDUM TO THE SBS FRANCHISING, INC.  
MASTER FRANCHISE AGREEMENT  
REQUIRED FOR WASHINGTON FRANCHISEES**

The state of Washington has a statute, RCW 19.100.180 which may supersede the Master Franchise Agreement in your relationship with Stratus, including the areas of termination and renewal of your Master Franchise. There may also be court decisions which may supersede the Master Franchise Agreement in your relationship with Stratus, including the areas of termination and renewal of your Master Franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

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, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect Stratus's reasonable estimated or actual costs in effecting Stratus.

The undersigned does hereby acknowledge receipt of this addendum.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

SBS FRANCHISING, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

PROSPECTIVE FRANCHISEE

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## **EXHIBIT H**

### **STATE ADDENDA TO DISCLOSURE DOCUMENT**

The following states have statutes which may supersede the Master Franchise Agreement in your relationship with Stratus including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e, *et seq.*], DELAWARE [Code Section 2552], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [Rev. Stat. Chapter 121 1/2 par 1719-1720], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17] MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37- 5B], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions which may supersede the provisions of the Master Franchise Agreement in your relationship with Stratus including the areas of termination and renewal of your franchise.

The Master Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under current U.S. Bankruptcy Laws.

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES  
REQUIRED BY THE CALIFORNIA FRANCHISE INVESTMENT LAW**

**State Cover Page.** The State Cover Page is deleted in its entirety and replaced with the following:

**CALIFORNIA  
STATE COVER PAGE**

Your state may have a franchise law that requires a franchisor to register or file with a 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.

THIS DISCLOSURE DOCUMENT IS PROVIDED FOR YOUR OWN PROTECTION AND CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THIS DISCLOSURE DOCUMENT AND ALL CONTRACTS AND AGREEMENTS SHOULD BE READ CAREFULLY IN THEIR ENTIRETY FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF CALIFORNIA. SUCH REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF BUSINESS OVERSIGHT NOR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

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](http://WWW.DBO.CA.GOV).

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY LITIGATION OR ARBITRATION ONLY IN THE STATE IN WHICH YOUR FRANCHISE IS LOCATED.
2. THE FRANCHISE AGREEMENT REQUIRES THAT THE LAW OF THE STATE IN WHICH YOUR FRANCHISE IS LOCATED GOVERNS THE AGREEMENT.
3. THE MASTER FRANCHISE AGREEMENT REQUIRES THAT ALL DISPUTES, CONTROVERSIES AND CLAIMS OF ANY KIND ARISING OUT OF OR RELATED TO

THE MASTER FRANCHISE AGREEMENT BE FIRST SUBMITTED TO NON-BINDING MEDIATION.

4. YOU MUST MEET THE FOLLOWING REQUIREMENTS IN ORDER TO MAINTAIN THE EXCLUSIVE NATURE OF YOUR TERRITORY: IN THE SECOND YEAR AFTER OPENING YOU MUST MEET THE MINIMUM MONTHLY GROSS REVENUE REQUIREMENT OF \$50,000.00. IN THE THIRD YEAR, YOU MUST MEET THE MINIMUM MONTHLY GROSS REVENUE OF \$100,000.00. IN ADDITION, EACH YEAR THEREAFTER YOU MUST INCREASE YOUR MONTHLY GROSS REVENUE. IF YOU DO NOT MEET THESE MONTHLY MINIMUM REQUIREMENTS, SBS MAY:
  - (A) REQUIRE YOU AND YOUR KEY EMPLOYEES TO ATTEND, AT YOUR SOLE EXPENSE, REMEDIAL TRAINING, AND
  - (B) CANCEL YOUR EXCLUSIVE RIGHT TO YOUR TERRITORY.
5. THREE YEARS AFTER SIGNING THE MASTER FRANCHISE AGREEMENT, YOU MUST HAVE AT LEAST 50 OPERATING AND ACTIVE UNIT FRANCHISES WITHIN YOUR TERRITORY.
6. THERE MAY BE OTHER RISKS 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 make sure to do your own investigation of the franchise.**

**Item 3. Litigation.** The following statements are added to Item 3:

Neither the Franchisor nor any person listed in Item 2 of this 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 persons from membership in such association or exchange.

**Item 6, Other Fees.** The following statement is added to Item 6:

The highest interest rate allowed in California is 10% annually

**Item 17. Additional Disclosures.** The following statements are added to Item 17:

The Master Franchise Agreement requires the parties to bring disputes first to formal non-binding mediation in accordance with the laws and regulations of the state in which your franchise is located, before being able to file suit in a court of law. The mediation will occur at a venue in the state in which your franchise is located. If Stratus incurs legal fees or other expenses as a result of your breach of the Master Franchise Agreement, then Stratus is entitled to recover from you all of its legal fees and other expenses. If either party is required to enforce its rights under the Master Franchise Agreement in a judicial or other legal proceeding, the winning party in the proceeding is entitled to reimbursement of its costs and expenses, including reasonable accounting fees, expert witness fees and legal fees from the losing party.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer, or nonrenewal of a franchise. If the Master Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The Master Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (U.S.C.A. Sec. 101 et seq.).

The Master Franchise Agreement contains a covenant not to compete which extends beyond the termination of a franchise. This provision may not be enforceable under California law.

The Master Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

Prospective Franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The Master Franchise Agreement requires application of the laws of the state in which your franchise is located.

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

YOU MAY HAVE TO SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE SECTION 31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE SECTIONS 20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE SECTIONS 20000 THROUGH 20043).

**Item 19, Financial Performance Representations.** The following statement is added to Item 19:

“The earnings claims figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your (franchised business). Franchisees or former franchisees, listed in the offering circular, may be one source of this information.”

**Item 20, Outlets and Franchisee Information.** The following statement is added to Item 20:

All franchisees referred to in this Item are owners of Master Franchises of the kind offered in this Franchise Disclosure Document.

**Exhibit E, Promissory Note.** The following statement is added to the Promissory Note:

The maximum interest allowed by law in California for consumer loans is 10% and for sales contract interest rates is 12%. These may apply to your franchise agreement. In no event will SBS Franchising, Inc. charge you more interest than that allowed by the law in California.

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURE FOR  
ILLINOIS FRANCHISEES**

**Cover Page and Item 17. Additional Disclosures.**

For Illinois franchisees, Illinois law, 815 ILCS 705/19 and 705/20, governs the Master Franchise Agreement. Illinois law may affect the conditions under which the Master Franchise can be terminated and your rights in the event your Master Franchise is not renewed by Stratus. Any provision in the Master Franchise Agreement that designates jurisdiction or venue outside of Illinois is void. However, the Master Franchise Agreement may provide for arbitration in a forum outside Illinois.

**ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT PURSUANT  
TO THE INDIANA FRANCHISE DISCLOSURE LAW AND THE INDIANA  
DECEPTIVE FRANCHISE PRACTICES ACT**

Notwithstanding anything to the contrary set forth in the Disclosure Document, the following provisions shall supersede and apply to all franchises offered and sold in the State of Indiana:

1. The laws of the State of Indiana supersede any provisions of the Franchise Agreement, the other agreements or other law if such provision are in conflict with Indiana law.

2. The prohibition by Indiana Code § 23-2-2.7-1(7) against unilateral termination of the franchise without good cause or in bad faith, good cause being defined therein as material breach of the Franchise Agreement, shall supersede the provisions of Section XVIII of the Franchise Agreement in the State of Indiana to the extent they may be inconsistent with such prohibition.

3. Liquidated damages and termination penalties are prohibited by law in the State of Indiana and, therefore, the Disclosure Document and Section XVIII of the Franchise Agreement is amended, as necessary, by the deletion of all references to liquated damages and termination penalties and the addition of the following language that appears therein:

“Notwithstanding any such termination, and in addition to the obligations of the Franchise as otherwise provided, or in the event of termination or cancellation of the Franchise Agreement under any of the other provisions therein, the Franchisee nevertheless shall be, continue and remain liable to Franchisor of any and all damages which Franchisor has sustained or may sustain by reason of such default or defaults and the breach of the Franchise Agreement on the part of the Franchisee of the unexpired Term of the Franchise Agreement.

At the time of such termination of the Franchise Agreement, the Franchisee covenants to pay to Franchisor within 10 days demand as compensation all damages, losses, costs and expenses (including reasonable attorney’s fees) incurred by Franchisor, and/or amounts which would otherwise be payable thereunder but for such termination for and during the remainder of the unexpired Term of the Franchise Agreement. This Agreement does not constitute a waiver of the Franchisee’s right to a trial on any of the above matters.”

4. No release language set forth in the Disclosure Document or Franchise Agreement, including but not limited to Item 17 or Section XVIII thereof, respectively, shall relieve Franchisor or any other person, directly or indirectly, from liability imposed by the laws concerning franchising of the State of Indiana.

5. Section XIV of the Franchise Agreement is amended to provide that such agreement will be construed in accordance with the laws of the State of Indiana.

6. Any provisions in the Franchise Agreement which designates jurisdiction or venue, or requires the Franchisee to agree to jurisdiction or venue, in a forum outside of Indiana, is deleted from any Franchise Agreement issued in the State of Indiana.

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES  
REQUIRED BY THE STATE OF MARYLAND**

**Item 1. The Franchisor, Its Predecessors And Affiliates** The following statement is added to Item 1:

The agent for service of process on Stratus in Maryland is the Maryland Securities Commissioner, 200 St. Paul Place, Baltimore, Maryland 21202-2020.

**Item 5, Initial Franchise Fee.**

Regarding Item 5, Maryland has required that all fees paid to us, including payments for goods and services received from us before the business opens, shall be deferred pending satisfaction of all franchisor's pre-opening obligations to you. The Initial Franchise Fee is fully earned by us and is due when you sign the Franchise Agreement; however, we will defer collection of the Initial Franchise Fee until the opening of your Stratus Building Solutions Master Franchise business. You must pay the Initial Franchise Fee within twenty four (24) hours after the opening of the Stratus Building Solutions Master Franchise.

This franchise fee is non-refundable and is in addition to any other payments, including royalties, that are payable under this Agreement.

**Item 16. Restrictions On What The Franchisee May Sell**. The following statement is added to Item 16:

Please note that it will be necessary to file the Unit Franchise Compliance Documents with the Maryland Office of the Attorney General Securities Division prior to selling, advertising or offering for sale any franchise within the state of Maryland.

**Item 17. Additional Disclosures.** The following statements are added to Item 17:

Any provision in the Master Franchise Agreement requiring you to sign a general release of claims against Stratus, including upon the signing of the Master Franchise Agreement or upon transfer, does not release any claim you may have under the Maryland Franchise Registration and Disclosure Law. You need not sign a general release at any time.

Under Maryland Law, any provision in the Master Franchise Agreement which designates jurisdiction or venue in a forum outside of Maryland is void, provided that the Master Franchise Agreement may provide for arbitration in a forum outside of Maryland.

Notwithstanding anything to the contrary in the Master Franchise Agreement, Stratus and you may file suit in a court in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the Master Franchise.

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES  
REQUIRED BY THE STATE OF MINNESOTA**

A. In recognition of the requirements of the Minnesota Franchises Law, Minn. Stat. §§ 80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§ 2860.0100 through 2860.9930, the Uniform Franchise Disclosure Document for use in the State of Minnesota will be amended to include the following:

1. Item 13, “Trademarks,” will be amended by the addition of the following paragraph at the end of the Item:

Pursuant to Minnesota Stat. Sec. 80C.12, Subd. 1(g), we are required to protect any rights which you have to use our proprietary marks.

2. Item 17, “Renewal, Termination, Transfer and Dispute Resolution,” will be amended by the addition of the following paragraphs:

With respect to franchisees governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice of non-renewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably withheld.

Pursuant to Minnesota Statutes, Section 80C.17, Subd. 5, Limitation on actions. No action may be commenced pursuant to this section more than three years after the cause of action accrues.

Pursuant to Minn. Rule 2860.4400D, any general release of claims that you or a transferor may have against us or our shareholders, directors, employees and agents, including without limitation claims arising under federal, state, and local laws and regulations will exclude claims you or a transferor may have under the Minnesota Franchise Law and the Rules and Regulations promulgated thereunder by the Commissioner of Commerce.

Minnesota Statutes, Section 80C.21 and Minnesota Rule 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 Disclosure Document or agreement can abrogate or reduce any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee’s right to any procedure, forum, or remedies provided for by the laws of the jurisdiction. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. It will be determined by a court if a bond is required.

B. In recognition of the requirements of the Minnesota Franchises Law, Minn. Stat. §§ 80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§ 2860.0100 through 2860.9930, the Franchise Agreement (the “Agreement”) is amended as follows:

1. Section III of the Agreement, under the heading “Term & Renewal,” will be supplemented by the addition of the following new paragraph:

Minnesota law provides franchisees with certain non-renewal rights. In sum, Minn. Stat. § 80C.14 (subd. 4) currently requires, except in certain specified cases, that a franchisee be given 180 days’ notice of non-renewal of the Franchise Agreement.

2. Section XV of the Agreement, under the heading “Use & Ownership of Names & Trademarks,” will be amended by the addition of the following new subsection N:

N. Pursuant to Minnesota Stat. Sec. 80C.12, Subd. 1(g), Franchisor is required to protect any rights Franchisee may have to Franchisor’s Proprietary Marks.

3. Section VIII of the Agreement, under the heading “Terms of Transfer,” will be amended to include the following:

Excluding only such claims as the transferor may have under the Minnesota Franchises Law and the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce.

4. Section VIII of the Agreement, under the heading “Terms of Transfer,” will be supplemented to include the following new subsection J:

J. Minnesota law provides franchisees with certain transfer rights. In sum, Minn. Stat. § 80C.14 (subd. 5) currently requires that consent to the transfer of the franchise may not be unreasonably withheld.

5. Section XIX.C of the Agreement, under the heading “Governing Law and Venue” will be supplemented by the addition of the following: Minnesota Statutes, Section 80C.21 and Minnesota Rule 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 Disclosure Document or agreement can abrogate or reduce any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee’s right to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

6. Section XIX of the Agreement, under the heading “Dispute Resolution”, will be supplemented by the following subsection I, which will be considered an integral part of the Agreement:

I. Minn. Stat. § 80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to jury trial, any procedure, forum, or remedies as may be provided for by the laws of the jurisdiction.

Each provision of this Agreement will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchises Law or the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, and delivered this Minnesota amendment to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**FRANCHISOR:**

MONSTER FRANCHISE LLC

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

**FRANCHISEE:**

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

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES  
REQUIRED BY THE STATE OF NEW YORK**

**Cover Page.** The following statements are added to the New York Cover Page as additional “Risk Factors:”

5. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THIS DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS DISCLOSURE DOCUMENT.

6. THE FRANCHISOR HAS BEEN IN EXISTENCE FOR A SHORT PERIOD OF TIME, SINCE 2006. THEREFORE, THERE IS ONLY A BRIEF OPERATING HISTORY TO ASSIST YOU IN JUDGING WHETHER OR NOT TO MAKE THIS INVESTMENT.

7. THE FRANCHISEE WILL BE REQUIRED TO MAKE AN ESTIMATED INITIAL INVESTMENT RANGING FROM \$130,250 TO \$1,790,000. THIS AMOUNT EXCEEDS THE FRANCHISOR’S STOCKHOLDERS’ EQUITY AS OF DECEMBER 30, 2007, WHICH WAS \$178,096.

**Item 3. Additional Disclosure.** Item 3 is deleted and replaced with the following:

Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has any administrative, criminal, or a material civil or arbitration action pending against him alleging a violation of any franchise law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegations.

Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has been convicted of a felony or pleaded nolo contendere to any other felony charge or, during the ten- year period immediately preceding the application for registration, been convicted of a misdemeanor or pleaded nolo contendere to any misdemeanor charge or been found liable in an arbitration proceeding or a civil action by final judgment, or been the subject of any other material complaint or legal or arbitration proceeding if such misdemeanor conviction or charge, civil action, complaint, or other such proceeding involved a violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegation.

Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, 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, or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

Accordingly, no litigation is required to be disclosed in this Disclosure Document.

**Item 4. Additional Disclosure.** Item 4 is deleted and replaced with the following:

Neither we nor any of our predecessors, affiliates, or officers, during the 10-year period immediately before the date of the Disclosure Document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the Bankruptcy Code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one year after the officer or general partner of the franchisor held this position in the company or partnership.

**Item 17. Additional Disclosures.** The following statements are added to Item 17:

SBS Franchising, Inc. will not assign its rights under the Master Franchise Agreement except to an assignee who in SBS Franchising, Inc.'s good faith and judgment is willing and able to assume SBS Franchising, Inc.'s obligations under the Master Franchise Agreement.

The New York Franchises Law requires that New York law govern any cause of action which arises under the New York Franchises Law.

The New York General Business Law, Article 33, Sections 680 through 695 may supersede any provision of the Master Franchise Agreement inconsistent with that law.

You may have to sign a general release when you enter the Master Franchise Agreement and if you transfer your franchise. These provisions may not be enforceable under New York law.

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES FOR  
SOUTH DAKOTA FRANCHISEES**

1. Item 5 is amended as follows: The South Dakota Department of Labor and Regulations, Securities Division, pursuant to SDCL 37-5B-5 has imposed a deferral requirement because of the Franchisor's financial condition. All initial fees are deferred until Franchisee has commenced doing business. Payment of the Initial Franchise Fee will be due within twenty four (24) hours of opening the Stratus Building Solutions Master Franchise.
  
2. Section IV.A. of the Franchise Agreement is deleted in its entirety and replaced with the following:

**B.** The initial franchise fee is: \_\_\_\_\_ and is payable as follows:

In full, twenty-four hours after the opening of the Stratus Building Solutions Master Franchise.

This franchise fee is non-refundable and is in addition to any other payments, including royalties, that are payable under this Agreement.

**FRANCHISOR:** SBS Franchising, Inc.

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES FOR  
WASHINGTON FRANCHISEES**

The state of Washington has a statute, RCW 19.100.180 which may supersede the Master Franchise Agreement in your relationship with Stratus, including the areas of termination and renewal of your Master Franchise. There may also be court decisions which may supersede the Master Franchise Agreement in your relationship with Stratus, including the areas of termination and renewal of your Master Franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

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, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect Stratus's reasonable estimated or actual costs in effecting Stratus.

**ADDENDUM TO THE DISCLOSURE DOCUMENT PURSUANT TO  
THE WISCONSIN FRANCHISE INVESTMENT LAW**

Notwithstanding anything to the contrary set forth in the Disclosure Document, the following provisions shall supersede and apply to all franchises offered and sold in the State of Wisconsin:

1. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF SECURITIES OF THE STATE OF WISCONSIN.

2. The following shall apply to Franchise Agreements in the State of Wisconsin:
- a. The Wisconsin Fair Dealership Act, Wisconsin Statutes, Chapter 135 (the “Act”), shall apply to and govern the provisions of Franchise Agreements issued in the State of Wisconsin.
  - b. The Act’s requirements, including that in certain circumstances a Franchisee receive ninety (90) days’ notice of termination, cancellation, non-renewal or substantial change in competitive circumstances, and sixty (60) days to remedy claimed deficiencies, shall supersede the provisions of Section XVII of the Franchise Agreement to the extent they may be inconsistent with the Act’s requirements.

**EXHIBIT I  
UNIT FRANCHISE AGREEMENT**

**EXAMPLE FORM**

**THIS IS A SAMPLE OF THE UNIT FRANCHISE AGREEMENT THE MASTER FRANCHISEE  
WILL OFFER TO ITS UNIT FRANCHISEES.**

**MASTER FRANCHISEE WILL NOT SIGN THIS AGREEMENT AND IT IS FOR  
INFORMATION ONLY.**

**NOTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS INTENDED AS AN OFFER  
OF A UNIT FRANCHISE**

**UNIT FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT (this "Agreement") is being entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between **YOUR COMPANY NAME**, a \_\_\_\_\_ state [corporation][limited liability company], d/b/a Stratus Building Solutions of **AREA** with its principal office located at: **ADDRESS, CITY, STATE ZIP** (hereinafter referred to as "Franchisor") and:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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(hereinafter referred to collectively as "Franchisee").

Franchisor is in the business of offering franchises, and sublicensing the use of the name and service mark of SBS Franchising, Inc. ("SBS"), so that Franchisee may operate a comprehensive building maintenance care business, providing commercial cleaning and maintenance services to interior and exterior environments of business and residential locations. The operation of such a building maintenance and care business by the Franchisee within the Territory described below is hereafter referred to as the "Franchised Business".

Franchisor has been granted by SBS the right to offer unit franchises in the Territory (defined below). Franchisee desires to use the Stratus® trade name and service mark licensed to Franchisor in operating the Franchised Business and to avail itself of various other services provided by Franchisor.

Franchisee acknowledges that it has read this agreement and the Franchise Disclosure Document for prospective franchisees and has been given at least fourteen (14) days to obtain clarification of any provision that they may not understand.

NOW, THEREFORE, in consideration of the mutual promises, covenants, benefits and detriments contained herein and provided for hereunder, the parties agree as follows:

**I. FRANCHISEE ENTITY**

Franchisee must be a business entity (not an individual) that has its own employees. Franchisee must hire all employees used in the operation of the Franchised Business (including without limitation any owners of Franchisee working in the Franchised Business) and must comply with all federal, state and local laws and regulations related to the operation of an entity and employment of individuals, including but not limited to deduction from such employees' salaries, and payment to the appropriate tax authorities, of all employee taxes and workers compensation insurance and unemployment insurance.

## II. INITIAL CUSTOMER ACCOUNTS AND GUARANTEE

### A. Franchise Plan

Franchisor will furnish to Franchisee a franchise plan that will consist of one (1) or more customer account(s) located in CITY, STATE MSA (the "Territory") amounting to \$\_\_\_\_\_ projected gross revenue per year (as it may be modified hereunder from time to time, the "Franchise Plan"). The Franchisor grants to the Franchisee the right to service one or more customer accounts as part of the Franchise Plan within the Territory. Franchisor will use its reasonable commercial efforts, to the extent practicable, to permit Franchisee to provide its input regarding service specifics (estimate, cost assessments, ordering supplies, and Clean Schedule (described below)) in connection with customer accounts. In such cases where Franchisor permits Franchisee to provide its input, Franchisee may provide its input regarding specific details related to the Franchise Plan, including without limitation, regarding the estimate, time and personnel necessary to complete such plan, cost assessments, ordering supplies, etc. and Franchisor shall take such input into account in developing the Franchise Plan. The Territory is not exclusive to the Franchisee and the Franchisor may grant other franchises in the Territory. Franchisee may not service any customers or accounts for the Franchised Business outside of the Territory. Franchisee shall have discretion to determine its own hours and the manner in which it completes all work for customers, provided however, that the work completed for the customer complies with the customer's requirement as identified in the "Clean Schedule" provided to Franchisee prior to conducting work for the customer. The "Clean Schedule" describes the work required by the customer and is a guide to the performance of Franchisee's services to the customer.

The contracts and the customer accounts are owned by and remain the property of the Franchisor. In the event that Franchisee rejects any customer accounts provided as part of this Franchise Plan or subsequently discontinues servicing such accounts, then Franchisor will be deemed to have fulfilled its obligations hereunder. However if within one year from the starting date of Franchisee's services, a customer should terminate the services of Franchisee for any reason except faulty workmanship, lack of trustworthiness, or other claimed defaults on the part of Franchisee or if Franchisee should cease servicing a customer because of the customer's failure to pay for services rendered, Franchisor will replace within a reasonable time these terminated account(s) with other janitorial customer account(s), prorated based upon the original gross revenue per year. If the new account(s) total more than the prorated original account(s), an Account Acquisition Fee will be assessed on the overage.

In addition to Franchisee's performance of the Franchise Plan, Franchisor encourages Franchisee to develop its own business, independent of the Franchise Plan, of offering and providing services to customers of the Franchised Business and other customers that are separate and additional services that would be an independent source of revenue for Franchisee from that received through the Franchised Business, as further described in Section III.D hereof.

## B. Timing of Acquisition of Initial Customer Accounts

The time period the Franchisor has to offer initial customer accounts to Franchisee from the date of completion of Franchisee's training is calculated as follows:

- (i) One hundred and twenty (120) business days for any initial Franchise Plan up to \$36,000 of projected gross revenue per year; or
- (ii) One hundred and twenty (120) business days plus an additional thirty (30) business days for each additional \$12,000 of gross revenue per year over the initial \$36,000 gross revenue per year.

The time period described above may be extended upon the parties' mutual agreement or for the following amount of time in the following circumstances:

- (i) Retraining of Franchisee. If any customer account offered to Franchisee in fulfillment of the initial Franchise Plan cancels Franchisee's services for faulty workmanship, or other default under such customer account's cleaning contract, or Franchisor discontinues Franchisee's service to such a customer account, Franchisor may require retraining of Franchisee's representative and the time within which to offer the initial Franchise Plan volume of projected gross revenue will be suspended until Franchisee's representative completes retraining to Franchisor's satisfaction.
- (ii) Franchisee's Material Breach of the Agreement. If Franchisee is in breach of any material provision of this Agreement, any customer contract or any other Agreement with Franchisor, the time in which to offer the initial Franchise Plan volume of projected gross revenue will be suspended until all material breaches are cured.

## C. Account Refusal.

Franchisor makes no representations with respect to the profitability or the amount of labor required to fulfill the initial customer account(s) other than it will comply, at the time the Franchise Agreement is granted, with the Franchise Plan as defined in Section II.A, or of any additional customer accounts that are offered to Franchisee. Franchisee acknowledges that (1) it may be involved in the bidding of customer account(s), to the extent described in Section II.A hereof, and (2) the means by which Franchisee's obligations to the customer are fulfilled during the term of this Agreement are solely within Franchisee's control. After the assignment of a customer account to Franchisee, Franchisee shall either, within seven (7) calendar days notify Franchisor in writing of its refusal of the customer account or Franchisee will be deemed to have accepted said account. Franchisee's refusal of any account will in no manner be construed as a breach of Franchisor's obligations under Section II hereof.

### III. ADDITIONAL ACCOUNTS

#### A. Account Acquisition Program

During the Term of this Agreement, Franchisor may offer to Franchisee, and Franchisee may accept, additional customer accounts if Franchisor deems that Franchisee can satisfactorily service such additional accounts. To obtain additional accounts, Franchisee will be required to pay an Account Acquisition fee based on the Franchise Plan level selected (see Section VIII.B of this Agreement) and/or their current gross annual billing. These additional accounts will be subject to the terms of this Agreement.

#### B. Stratus Referral Program

Franchisee may obtain additional customer accounts by referring a potential franchisee to Franchisor through a written notice to Franchisor. When the potential franchisee enters into a franchise agreement with Franchisor, Franchisee will receive additional accounts equal to ten percent (10%) of the amount of the projected gross revenue per year of the Franchise Plan purchased by such potential franchisee. These additional accounts will be subject to the terms of this Agreement as if purchased hereunder.

#### C. Franchisee Obtained Accounts

Because the Franchisee is operating its own business, Franchisee shall identify potential new customer accounts within the Territory to expand its business. After Franchisee identifies a potential new customer account located within the Territory to Franchisor and Franchisor deems the identified potential customer a suitable target, Franchisee may solicit the potential customer to become its customer. Further, if Franchisee sees benefit and at its request, Franchisor will utilize its best efforts to assist Franchisee to solicit the potential customer to become its customer.

#### D. Franchisee's Additional Business Services

Franchisor encourages Franchisee to offer and provide additional business services separate from those offered by the Franchised Business to generate separate revenue streams (the "Additional Business Services"). Such Additional Business Services may include, but is not limited to, residential cleaning services, waste removal, snow removal, and recycling services. Franchisee shall have the right to offer the Additional Business Services to existing customers that were originally introduced to Franchisee by Franchisor and new customers. Franchisee shall have no right to use the Stratus Marks and System Standards in providing the Additional Business Services; provided, however, that any isolated cleaning services described in Section VIII.F hereof shall be subject to the terms and conditions of such provision. Franchisee's Additional Business Services shall not include any activities prohibited by Franchisee's non-compete covenants in Section XVIII hereof.

#### **IV. ADMINISTRATION SERVICES**

##### **A. Billing, Collections and Records**

Franchisor has the sole right to (i) invoice and collect payments from all customer accounts serviced by Franchisee on a monthly basis, and (ii) accept payments from customers for Franchisee services. Franchisee must maintain revenue records. Franchisor reserves the right to maintain revenue records on all of Franchisee's customer account(s), in addition to Franchisee.

##### **B. Training, Customer Relations and Accounting**

Franchisor provides a comprehensive training program for Franchisees, which includes video, classroom and on-site training substantially similar to the actual work that will be performed by Franchisee's franchised business. Personal consultations can also be scheduled at the request of Franchisee. Franchisee is required to have its representative complete the training program to the satisfaction of Franchisor. Group seminars will be available from time to time at the sole discretion of Franchisor, which seminars may be mandatory. There are no costs to Franchisee for personal consultations and group seminars. Franchisee's employees will fulfill the obligations of the customer agreements in accordance with the Stratus System Standards (defined in Section VI.B) and within the terms of the contract. Franchisee's employees must be properly trained and capable of performing their duties in accordance with Stratus System Standards. Franchisee must conduct a thorough training class for its employees as described in the Unit Franchise Technical manual and as otherwise required by the Franchisor.

##### **C. Customer Relations Assistance**

Franchisee and its employees are responsible for providing courteous service to its customers and respond to any concerns, comments or complaints promptly. Franchisor may assist Franchisee with its customer service efforts and will use its best effort to assist in customer relations. Franchisor may send a representative to visit customers during normal business hours in an effort to insure customer satisfaction. Results of these site inspections will be made known to Franchisee by mail, phone, or other manner. Regularity of these visits is determined solely by Franchisor and should in no way replace customer service efforts that Franchisee is required to employ.

##### **D. Accounting**

- (i) Franchisor will invoice account(s) on a monthly basis (unless the service contract requires a different procedure with the consent of Franchisee). Franchisor will then deduct royalties, administrative fees, insurance fees, any supplies, any advertising fees, any training fees, any transfer fees, that month's payment on any promissory note, or any other monies then owed by Franchisee, and uncollected accounts receivable in accordance with this

Section IV.D. If Franchisee approves Franchisor's attempts to enforce any payments of accounts by customers, in accordance with Section IV, or if Franchisee is in default of any monies owed to Franchisor or is otherwise in breach of this Agreement, Franchisor will deduct any out-of-pocket costs (including, but not limited to, reasonable attorney's fees and court costs) which may be incurred by Franchisor in enforcing payments of accounts by customers.

- (ii) Franchisor will pay Franchisee each month (on the last business day of the month following the month in which service was provided) from the amount paid by the customer(s) Franchisee serviced during the previous month net of the amounts described in the previous paragraph. Payments for services provided will be made no earlier than the thirtieth (30<sup>th</sup>) day following the month the services were rendered and will not exceed the sum total due Franchisee (after all deductions set forth above) from all accounts the Franchisee is currently servicing.
- (iii) Franchisor will make its best efforts to collect monies due from each customer account. If Franchisor determines that customer is a bad risk, Franchisee may, in its sole discretion, cease providing services to that account. Franchisor may engage attorneys, commence litigation or do any acts in order to enforce payment of the accounts by the customers, upon Franchisee's consent. Franchisor shall notify Franchisee before taking such action and Franchisee agrees to cooperate with Franchisor in any such action and to pay the reasonable attorney's fees, court costs and other expenses incurred in connection with such action. If after collection action has begun, account customer pays the previously uncollected account receivable, the Franchisor shall add such fees, costs and expenses to the calculation of the monthly amount owed the Franchisee at the end of the month in which the customer paid such previously uncollected amount.

## **V. USE OF TRADE NAME, SERVICE MARKS, ETC.**

### **A. Franchisor to License Franchisee**

Franchisor hereby grants to Franchisee a non-exclusive license, upon the terms and conditions contained herein, to use the name "Stratus", "Stratus Building Solutions", or any other name, design, or mark Franchisor may authorize in the future (the "Marks"). Franchisee will use the trademarks, service marks, trade names and logos and the labels and designs pertaining thereto, but only in connection with the rendering of Franchisee's services in the janitorial and building maintenance service business, and only on those items and in the form approved by Franchisor. Nothing contained herein may be construed so as to permit the use by Franchisee of the Marks in any other manner or for any other purpose (including, without limitation, no use of the Marks in connection with the Additional Business Services), except as expressly provided for herein. Nothing herein gives Franchisee any right, title or interest in or to the Marks, trade secrets, processes, methods of operation or good will of Franchisor or SBS,

except as a privilege and license, during the term hereof, to display and utilize the same according to the limitations and upon the terms, covenants and conditions contained herein, or as may be hereafter adopted by Franchisor from time to time. Franchisor expressly reserves all rights with respect to the Marks and with respect to any trade secrets, processes, methods of operation and goodwill except as may be expressly granted to Franchisee herein.

#### B. Expiration or Termination of License

Upon the expiration or termination of this Agreement, as provided under the terms of this Agreement, Franchisee will lose all rights to use the name and mark "Stratus", "Stratus Building Solutions" and/or any other licensed names or marks, business systems, confidential information and trade secrets, and must cease to be an authorized Stratus Franchisee. Franchisee has no further rights to any accounts, proceeds of any account, nor will it have any further interest in this Agreement or any benefits provided herein. Franchisee agrees to discontinue the use of the Marks, deliver and surrender every Mark, label, promotional item, and any physical object bearing or containing any of said Marks, all manuals, and any other items that may be set forth herein; and Franchisee will not, directly or indirectly, thereafter operate or do business under any name or in any manner, whether as an individual, partner, agent, shareholder, officer, director, or spouse, that might tend to give the public the impression that Franchisee is operating a business operated, owned, licensed by or affiliated with the Franchisor or SBS.

#### C. Franchisors' Marks

Franchisee agrees that the Marks are the sole and exclusive property of SBS and have been licensed to Franchisor for use in the Territory pursuant to its agreement with SBS, and Franchisee asserts no claim and will hereafter assert no claim to any goodwill, reputation or ownership thereof by virtue of Franchisee's licensed use hereof. Franchisee will use the Marks only for the uses and in the manner permitted in this Agreement. Franchisee agrees that the Franchisor may, at its sole discretion, revoke the license to use the name Stratus and/or design and direct the use of a different, substitute name and/or design, and that, in such event, Franchisee will cease use of the name and/or design so revoked and commence immediately to use the substitute name and/or design at Franchisee's expense. Franchisee further agrees that it will immediately cease use of the Marks should Franchisor's license with SBS to use the Marks expire, terminate or fail to renew, except as otherwise specified in Section XVI.C hereof.

#### D. Notification of Infringements and Claims

Franchisee will only take such actions as Franchisor considers important in Franchisor's judgment to protect the Marks. Franchisee will not take any action that jeopardized Franchisor's or SBS' interests in, or the validity or enforceability of, the Marks. Franchisee agrees to immediately notify Franchisor of any apparent or actual infringement of, or of any challenge to Franchisee's use of, the Marks. Franchisee will not communicate with any third party with respect to such a claim unless Franchisor consents to such communication. Franchisor will take such action as Franchisor deems appropriate in its sole judgment. SBS has

the exclusive right to control any settlement, litigation or proceeding arising out of or related to any such matters.

## **VI. BUSINESS OPERATIONS**

### **A. Franchisee's Representative to Attend Training Course**

Franchisee agrees that its representative will attend the initial mandatory training program provided to all new franchisees, as well as any other specialized training that Franchisor may deem necessary with regard to the needs of a particular customer serviced by Franchisee. Franchisor may elect to provide training in the account Franchisee is servicing or in other accounts. Franchisee further agrees to operate the Franchised Business and provide service to its customers in a manner consistent with the procedures, methods and standards established in such training programs, manuals and directives, as they may be adjusted from time to time. Franchisee also agrees to permit Franchisor to observe and record the performance and methods of services provided by Franchisee and its employees.

### **B. Quality Control Standards**

Franchisee agrees to devote sufficient time and effort to its business in order to (i) comply with the provisions of this Agreement and (ii) ensure that all work and services performed by Franchisee and by its authorized agents/employees in the Franchised Business will be performed to meet, and in accordance with, the customer's performance requirements. Franchisee will determine its staffing, the number of hours an account requires, including whether its employees will work full time or part time, the time for doing the work, and the manner in which the work is completed, provided however, that all terms of the customer contract as described in the "Clean Schedule" are met. Franchisee will advise Franchisor what its hours of operation will be in order to allow Franchisor the right to inspect in accordance with this Section VI.B. Franchisor reserves the right to establish, subject to the terms of Section II.A hereof, company standards, methods and procedures' pertaining to the operation of the Franchisee's Franchised Business or this Franchise Agreement (the "System Standards"). Franchisee agrees that it will be bound by the System Standards. Franchisor shall keep a current updated manual of the System Standards at Franchisor's company office. In the event that the System Standards kept by Franchisor differ from those kept by Franchisee, the System Standards in Franchisor's company office manual will be controlling. Franchisee will follow current established Stratus System Standards, as they may be amended from time to time, and agrees not to deviate there from without prior written consent of Franchisor.

Realizing that quality control and uniformity are important in the Stratus System, Franchisee agrees to use only such equipment, supplies, products, control forms and other business forms that are prescribed or permitted by the Franchisor, this includes using Stratus brand chemicals. Franchisor has the right to change the authorized goods and services that the Franchisee may offer, but such goods and services will be related to the business of building and property maintenance, decoration, refurbishment and renovation. Franchisor will not provide Franchisee with equipment, tools, supplies, products, or forms. Franchisee will

purchase and use its own equipment, tools, and will purchase its own supplies, products and forms for the operation of the Franchisee's Franchised Business.

In hiring its employees, Franchisee shall use its best efforts to hire qualified and competent employees and shall operate its business by following and maintaining the System Standards established by the Franchisor through its trainings, manuals, periodic directives and updates. Franchisor is not responsible for supervising either Franchisee's performance of its obligations to the customer accounts nor is Franchisor responsible for supervising Franchisee's employees. Franchisee is solely responsible for the supervision of its employees. Franchisee acknowledges that its employees are not employees of Franchisor or SBS, and shall, upon request by Franchisor, require each of its employees to sign a statement (in a form provided by Franchisor) acknowledging such fact.

Franchisee understands and agrees that Franchisor may inspect any premises serviced by Franchisee at any time during regular business hours or hours when the Franchisee is providing services to its customers and upon reasonable advance notice to ensure that the quality of service being performed is in accordance with System Standards. Such inspection may not interfere with the regular business activities of Franchisee or its customers.

C. Business Records; Taxes

Franchisee further agrees to keep true and accurate business records and books of accounts, which will be open to inspection by the Franchisor or its duly authorized representative during regular business hours. Franchisor has the right to examine same, including any other business records as they may request. Franchisee agrees to pay all personal property, sales, excise, use and other taxes, regardless of type or nature which may be imposed, levied or assessed by any federal, state, municipality, county or other government agency, which may have jurisdiction over such products, services and equipment.

D. Confidential Information

Franchisee acknowledges that the information and materials which Franchisor provides to Franchisee contain valuable confidential, proprietary and trade secret business information of Franchisor, and Franchisee agrees not to make any reproductions thereof without the prior written permission of Franchisor. Franchisee further agrees not to disclose any information it receives from Franchisor to any third party without the prior written approval of Franchisor and not to disclose such information to employees of Franchisee except those who have a need to know and who have agreed not to make any use of the information disclosed by signing a confidentiality agreement. Said information and materials at all times remain the exclusive property of Franchisor and will be delivered to Franchisor, including all copies thereof in the possession of Franchisee, at Franchisor's request. Franchisee agrees to use the contents in strict confidence pursuant to this Franchise Agreement, and only during the effective term of this Agreement.

Franchisee acknowledges that a violation of the terms of this Section VI.D would result in irreparable injury to Franchisor for which no adequate remedy at law may be available and

Franchisee accordingly consents to the issuance of an injunction prohibiting any such conduct of Franchisee or other equitable remedies. This Section VI.D shall survive the termination of this Agreement.

E. Managing Owner

The individual signing this Agreement for Franchisee and designated on the signature page of this agreement as the Managing Owner (which individual must have at least a fifty percent (50%) ownership interest in the Franchisee), is the “Managing Owner” for the purposes of this Agreement. Franchisee acknowledges its understanding of Franchisor’s requirement that the “Managing Owner” be named and have or be granted the authority by Franchisee to bind Franchisee in any dealings with Franchisor and to direct any action necessary to ensure compliance with this Agreement and any other agreements relating to the Franchised Business. The Managing Owner will be in charge of directing the operations of the Franchisee’s Franchised Business. No change in the Managing Owner may be made without the written consent of Franchisor.

**VII. SERVICE TO CUSTOMERS**

A. Equipment and Supplies

Franchisee will be responsible for acquiring and providing its own equipment and supplies for the Franchised Business. Franchisee will replace such equipment and supplies as needed and will provide all labor, other equipment, materials, tools and other supplies necessary to service Franchisee’s customer account(s), including all janitorial services called for in each customer contract. All such services will be performed in a good and professional manner, satisfactorily to the customer for whom such services are performed. Franchisee agrees to maintain a safe place of business in accordance with OSHA and other governmental and industry standards and to conduct its business in a manner that would bring goodwill to itself, Franchisor and SBS.

Franchisee agrees that if it or any of its employees licensed under this Agreement develop any new concept, process or improvement in the operation or promotion of the Franchised Business, except those developed during Franchisee’s conduct of its Additional Business Services, it will promptly notify Franchisor and provide Franchisor with all necessary information concerning same, without compensation. Franchisee acknowledges that any such concept, process or improvement shall become the property of Franchisor, and Franchisee shall take all actions necessary, at Franchisor’s expense, to assign such property to Franchisor or, at Franchisor’s request, SBS. Franchisee agrees that Franchisor may utilize or disclose such information to other franchisees or SBS as it determines to be appropriate.

B. Discontinuing Franchisee's Services to Customer

Franchisor may discontinue Franchisee's service to any customer and either serve the customer through Franchisor's own staff or assign the customer to another franchisee in the event that:

- i. Franchisee has failed to perform its obligations to the customer's satisfaction, or the customer has lodged a complaint with Franchisor, and Franchisor has given Franchisee written notice of its failure to perform or of such complaint, and:
  1. The customer is not satisfied within three (3) business days from the date of delivery of such notice, or
  2. The customer is dissatisfied on two (2) occasions within a period of one hundred and twenty (120) consecutive days; or
- ii. Franchisor receives a request either written or verbal from a customer that the customer's contract(s) be terminated or be served by a different franchisee; or
- iii. Franchisee fails to service any customer in a prompt manner in accordance with System Standards; or
- iv. Franchisee desires to cease servicing a customer and has received the Franchisor's written consent to such cessation.

Franchisor will have no obligation to provide additional replacement customers if Franchisee rejects the customer offered. Nothing contained in this Section VII will limit any other rights held by the Franchisor under this Agreement, including termination of this Agreement.

Franchisee hereby waives any and all claims, demands, or rights to payments for any services performed after the date that Franchisee's services to a customer are discontinued, and Franchisee further agrees that Franchisee will not be entitled to any refund, rebate or reduction of any fees previously paid or promised to Franchisor in connection with Franchisee's relationship with, or services to, any customer that has been discontinued pursuant to the provisions of this Section. Furthermore, Franchisor does not have any obligation to replace such customer with a new customer account, except as provided above.

Multiple franchisees of the Stratus system will operate in the Territory where Franchisee does business, and Franchisee acknowledges that the consistent satisfaction of all customers of the Stratus brand in the Territory is critical to its own success and the success of all franchisees in the Territory. Employees of Franchisee and other franchisees operating in the Territory work daily in close contact with customers and their employees in their personal work spaces

and in the immediate proximity of customers' important business equipment and confidential business records. Franchisee acknowledges that this intimate contact between Franchisee's employees and its customers makes the prompt and definitive action to address customer dissatisfaction permitted by this Section VII.B essential to creating and maintaining long term customer relationships and has an impact on the goodwill associated with the Stratus Marks.

## VIII. FRANCHISE AND OTHER FEES

Franchisee agrees to pay Franchisor as follows:

### A. Franchise Fee

A franchise fee of \$ \_\_\_\_\_, payable in cash, certified check or wire transfer, upon the execution of this Agreement and the balance of \$ \_\_\_\_\_ to be paid in thirty-six equal monthly installments of \$ \_\_\_\_\_ each, including interest on the unpaid principal amount at the rate of fifteen percent (15%) per annum. The first installment of principal and interest will be paid out of the first collection made by the Franchisor from Franchisee's account(s). Installments will thereafter be paid on the thirtieth (30<sup>th</sup>) day of each consecutive month out of the monthly collection made by Franchisor from Franchisee's accounts until full payment is received. The obligation to pay the balance is evidenced by a Promissory Note, in the form attached hereto as Exhibit B.

### B. Additional Account Fee (Account Acquisition Fee)

An additional account fee for additional janitorial customer accounts purchased pursuant to Section II of this Agreement is payable at the time such additional account is assigned to Franchisee in accordance with the option selected by Franchisee and consented to in writing by Franchisor on the Account Acquisition Agreement in the form attached hereto as Exhibit C (the "Account Acquisition Agreement"). The consent of Franchisor will be evidenced by its signature on the Account Acquisition Agreement. The options set forth in such Account Acquisition Agreement are as follows:

- i. A cash payment in full (less a ten percent (10%) discount), or
- ii. A sweat equity option providing for monthly payments over a time period of less than six months, as determined by Franchisor, or
- iii. A down payment of said fee at the time said account is assigned to Franchisee. The balance, with interest on the unpaid principal at the rate of fifteen percent (15%) per annum, paid in up to twelve (12) equal successive monthly installments commencing on the thirtieth (30<sup>th</sup>) day of the first month following the month the Franchisee begins servicing the new account.

The obligation to pay the balance will be evidenced by an Account Acquisition Agreement and/or a Promissory Note, as attached hereto as Exhibit B.

The Account Acquisition Fee will be the greater of the following:

- i. If Franchisee purchased below the SBS-12 level, or the existing business of Franchisee is billing less than \$12,000 per year in gross revenue, the additional account fee shall be five (5) times one month's gross billings for additional business;
- ii. If Franchisee purchased at least the SBS-12 level, but lower than the SBS-24 level, or the existing business of Franchisee is billing less than \$30,000 per year in gross revenue, the additional account fee shall be four (4) times one month's gross billings for additional business;
- iii. If Franchisee purchased at the SBS-24 level or higher, or if the existing business of Franchisee is billing \$30,000 or more in gross revenue, the additional account fee shall be three (3) times one month's gross billings for additional business;
- iv. Because Franchisee is operating its own business, the Franchisee is required to identify potential new customer accounts within the Territory to expand its business. If, after Franchisee identifies a potential new customer account located within the Territory to Franchisor and Franchisor deems the identified potential customer a suitable target, Franchisee may solicit the potential customer to become a Franchisee customer. If Franchisee successfully signs up the potential customer as a customer, there will be no Account Acquisition Fee due to Franchisor.
- v. If Franchisee identifies a potential new customer account located within the Territory to Franchisor and Franchisor deems the identified potential customer a suitable target, and Franchisee requests Franchisor assist in signing up the potential client, Franchisor will utilize its best efforts to solicit the potential customer to become a customer for Franchisee's benefit. Franchisee shall pay Franchisor an Account Acquisition Fee up to 50% of the amount due as determined above

C. Royalty

Franchisee agrees to pay Franchisor a monthly royalty equal to five percent (5%) of the monthly gross revenues for the preceding month, provided that the minimum monthly royalty payment will be Fifty Dollars (\$50). "Gross Revenues" is defined as the total amount of all bills and invoices sent by Franchisor to each account serviced by Franchisee during a calendar month, whether the bills and invoices represent janitorial services, goods, supplies or any other services or products related to the Franchised Business. Sales from any Additional Business Services shall not be deemed Gross Revenues.

D. Administration Fee

Franchisee agrees to pay Franchisor a monthly administration fee of ten percent (10%) of its "gross" revenue for the preceding month. There is no refund or rebate of any portion of the administration fee.

E. Business Insurance Fee

If Franchisee elects to participate in Franchisor's optional Business Insurance Program, a fee will be deducted from Franchisee's monthly gross revenues for the preceding month. Although this fee may fluctuate based upon the costs of insurance to the Franchisor and other factors, it is currently five percent (5%) of gross monthly revenues.

F. Isolated Cleaning Services

Special or isolated cleaning services are one-time non-recurring contracts such as carpet cleaning and extraction, floor stripping and refinishing or initial cleaning, etc. These services will not be included in Franchisee's monthly gross revenues; instead they will be reported and invoiced separately. Each time the Franchisee performs an isolated or special service, Franchisor is entitled to deduct a ten percent (10%) fee from the gross revenue paid in respect of such services in addition to the normal royalty, administration, advertising and insurance fees; provided, however, that Franchisee shall not be required to pay such ten percent (10%) fee for such services, if Franchisee's provision of such services is the direct result of its solicitation of the customer for providing such isolated or special services. In each case, Franchisee will be responsible for providing all equipment, supplies and labor for special and isolated services. If Franchisee acquires such work on its own and work is done in an account that is not already a Franchisor account, or is an account already serviced by Franchisee, this fee is waived; however, royalties, administration, advertising and insurance fees still apply. Isolated cleaning services shall not be Additional Business Services hereunder.

G. Bid and Negotiation Fee

Franchisee may request the services of Franchisor to help bid and negotiate a contract for cleaning services with a prospective customer. If a contract is secured after Franchisor has helped bid and/or negotiate the contract, an Account Acquisition Fee (or a partial fee) will be due to Franchisor.

H. Account Transfer Fee

Franchisee may request to transfer out of an account at any time. Because the transfer of an account destabilizes the account, a transfer fee will be charged if: (i) the transfer is requested within one hundred and twenty (120) days from the date the account was assigned to the Franchisee and there are no performance issues, a transfer fee equal to ten percent (10%) of the average monthly billing from such time or a minimum of \$100 will apply, (ii) if the request

to transfer is after one hundred and twenty (120) days but less than one year from the date the account is assigned to the Franchisee, a transfer fee equal to five percent (5%) of the average monthly billing from such time or a minimum of \$50 will apply, (iii) if the account has performance issues and has to be transferred, a performance transfer fee of 10% of the average monthly billing or a minimum of \$100 will apply, or (iv) if the performance transfer is during the first one hundred and twenty (120) days of starting the account, both fees set forth in clauses (i) and (iii) may apply.

## **IX. ADVERTISING AND PROMOTION**

### **A. Advertising Fee**

No advertising fee is assessed currently, although Franchisor reserves the right to charge such a fee. If the Franchisor, in its sole discretion, decides to charge an advertising fee, Franchisor may do so upon thirty (30) days written notice to Franchisee. In no event will an advertising fee exceed 1% of gross revenues. Any proceeds of such a fee will be used for marketing, advertising and promotional activities in the Territory, as well as to pay the administrative costs relating to the collecting and accounting of the fee and such activities. Franchisee is encouraged however to independently advertise and promote the Franchised Business and the Additional Business Services.

### **B. Promotional Items**

Franchisee shall prepare and distribute to customers business cards and badges, displaying the Marks, in promotion of its Franchised Business. All business cards and badges must prominently display, in bold, that the Franchisee is an “Independent franchisee of Stratus Building Solutions” or that Franchisee’s employee is “Employed by an independent franchisee of Stratus Building Solutions.” If Franchisee provides Additional Business Services, Franchisee shall also prepare and distribute to customers its own business cards and badges (without use of the Marks, and indicating that Franchisee is an independent business) to promote the Additional Business Services.

## **X. REFUNDS**

Franchisor has no obligation to refund any portion of any payment made under this Agreement, unless and to the extent that, within the period of time allowed by Section II hereof, the Franchisor fails to offer initial customer accounts worth \$\_\_\_\_\_ in annual gross billings, in which event Franchisor will refund a portion of the initial franchise fee equal to the difference between the Franchise Fee for the Franchise Plan originally contracted for in Section II of this Agreement and the actual franchise plan that is provided.

If at the time of the refund, Franchisee is indebted to the Franchisor pursuant to a promissory note given in payment of all or a portion of the initial franchise fee, the refund will be applied to payment of the note, up to the whole thereof, before the balance (if any) of the refund is paid to the Franchisee.

## **XI. KEYS AND SECURITY**

Franchisee is responsible for all keys to customer's premises and shall observe all security systems and precautions necessary or required at the customer's premises. If services to a customer are discontinued for any reason, or if this Agreement is terminated for any reason, Franchisee agrees to return all keys and security codes and cards immediately. Failure to return any such item for any reason or failure to comply with any of the provisions of a customer's contract for janitorial or maintenance services will constitute a breach of this Agreement by Franchisee.

## **XII. INDEPENDENCE OF FRANCHISEE'S BUSINESS**

Franchisee is and remains at all times a completely independent contractor in business for itself, and has no right or interest in, or authority over Franchisor or any of Franchisor's property or business. Franchisee is an independent contractor and Franchisee is not, and will not hold itself out as, an agent, representative, employee, officer, director, partner, owner, or affiliate of Franchisor or SBS. Except as expressly provided herein, it is further agreed that Franchisee has no authority to create or assume in Franchisor's or SBS' name, or on behalf of Franchisor or SBS, any obligation, express or implied, or to act or purport to act as agent or representative on behalf of Franchisor or SBS for any purpose whatsoever. In no event will either party be deemed to be fiduciaries of the other. Franchisee shall be solely responsible for all employment decisions and employment functions related to the Franchised Business and any Additional Business Services, including, without limitation, those related to hiring, firing, establishing remuneration, personnel policies, benefits, disciplining, supervising, and recordkeeping, regardless of whether Franchisee received advice from Franchisor on these subjects. Franchisee is free to conduct its business as it may deem best in providing the services to the customer, independently of the supervision, management and control of Franchisor, but Franchisee agrees to abide by all the terms of this Agreement, the System Standards and all federal, state and local laws and regulations of all government agencies having jurisdiction over the customer's premises or the activities conducted by Franchisee.

Franchisee shall be responsible for all income and other taxes to all federal, state, municipal and other authorities required to be paid for all persons employed in the Franchisee's operation (including the owners thereof) including the employer's portion of any social security, unemployment taxes, other payroll taxes, FICA and any other taxes required to be paid, by deducting such expenses from the pay of all Franchisee's employees including its owners. Franchisee shall also withhold, from employees' pay, and pay when due, taxes and premiums for unemployment and workman's compensation insurance for itself and all its employees, as required by state, federal or other law.

**FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE IS AN INDEPENDENT BUSINESS AND NEITHER IT NOR ANY OF ITS OWNERS, MEMBERS, OR SHAREHOLDERS, OFFICERS, EMPLOYEES, OR OTHER AFFILIATED INDIVIDUALS ARE EMPLOYEES OF FRANCHISOR OR SBS, AND HAVE NO RIGHT TO THE BENEFITS OF EMPLOYMENT FROM FRANCHISOR OR SBS.**

### **XIII. INSURANCE**

Franchisee is responsible for all losses, damages to property, or injuries to persons arising out of or connected with the performance or non-performance of Franchisee's services to customers, including any claimed damages for breach of security. Franchisee will obtain janitorial bonding in an amount not less than \$50,000. Franchisee further agrees that it will acquire and properly maintain workers' compensation insurance as required by law for itself and/or all of its employees and comply with all state and federal laws to maintain a proper unemployment insurance account. Franchisee further agrees to maintain comprehensive liability and property damage insurance covering property damage, loss and personal injury in amounts not less than \$1,000,000 per occurrence, \$2,000,000 in the aggregate. All such policies must name Franchisor and SBS Franchising, Inc. as additional insured and contain a Grantor of Franchise endorsement. Franchisee also agrees that its comprehensive liability insurance will not contain exclusion for property in Franchisor's care, custody, and control.

Franchisee must maintain comprehensive automobile insurance including, personal injury protection and uninsured motorist on all vehicles operated for its business.

Franchisee further agrees that all such insurance policies maintained by Franchisee be written by an insurance company (companies) in good standing and in compliance with all state and federal insurance laws and insurance regulatory agencies with an A.M. Best rating of A or higher. Franchisee shall provide Franchisor with thirty (30) days' written notice prior to the cancellation or termination of any insurance policy as defined herein.

Franchisee shall provide Franchisor with proof of coverage prior to the Franchisee commencing work on any customer account. If Franchisee fails to obtain any or all insurance as specified herein and approved by Franchisor, Franchisor may (but is not required to) purchase such insurance for the benefit of Franchisee and Franchisee agrees to forthwith reimburse Franchisor for the cost thereof. Types and amounts of insurance required to be procured by Franchisee may be modified from time to time by Franchisor, in its sole discretion, by written notice to Franchisee through modification of System Standards, policies and procedures or other reasonable manner.

Franchisee may participate in the optional Business Insurance Program which provides general liability insurance and bonding to Franchisor and its participating franchisees. The cost of such liability insurance and janitorial bonding plan provided will include, in addition to the premium, a management fee, service charge, and profit as determined by Franchisor.

Franchisee is responsible for obtaining all insurance required by this Agreement whether or not it chooses to participate in the optional Business Insurance Program. All policies of insurance, whether obtained through the Business Insurance Program or not, must name SBS and Franchisor as additional insureds or additional loss payee as appropriate and must contain a Grantor of Franchise endorsement.

#### **XIV. BUSINESS RISK**

Franchisee, as an independent business person, recognizes that there are economic and other hazards in connection with the operation of any business, including the type contemplated pursuant to this Agreement. Success, whether financial or otherwise, is not guaranteed by Franchisor, even though Franchisee may follow or rely on Franchisor's advice, recommendations, programs or policies.

\_\_\_\_\_  
Initials

Franchisee acknowledges that it has made an independent investigation of this business. Franchisee acknowledges that Franchisor has not made any representation, warranty, or other claim regarding the operation of any Franchised Business opportunity, other than those made in this Agreement and the Franchisor's Franchise Disclosure Document, and that Franchisee has independently evaluated this opportunity, including by using Franchisee's business professionals and advisors, and have relied solely on those evaluations in deciding to enter into this Agreement.

\_\_\_\_\_  
Initials

Franchisee acknowledges that it has read this Agreement and the Franchisor's Franchise Disclosure Document and understands and accepts that this Agreement's terms and covenants are reasonably necessary for the Franchisor to maintain its high standards of quality and service, as well as the uniformity of those standards for each Franchised Business, and to protect and preserve the good will of the Marks.

\_\_\_\_\_  
Initials

Franchisee acknowledges that it has not received from Franchisor or SBS, and is not relying upon, any representations or guarantees, express or implied, as to the potential volume, sales, income or profits of a Franchised Business.

\_\_\_\_\_  
Initials

#### **XV. INDEMNITY**

Franchisee is responsible for all losses, damages, judgments, liabilities, claims, injuries, costs and expenses arising directly or indirectly, out of or connected with the performance or non-performance of Franchisee's services to its customers, including any claimed damages for breach of security.

Franchisee agrees to defend, hold harmless and unconditionally indemnify Franchisor and its shareholders, directors, officers, employees, affiliates, agents and assignees, SBS and other Stratus franchisees (each, an "Indemnified Party") from all loss or damage arising from any liability, demands, claims, costs, obligations, suits, damages, and expenses, including reasonable attorneys' fees, which such Indemnified Party may at any time suffer or sustain, or

become liable for any reason, or any loss, damage or injury to persons or property of any Indemnified Party or both arising out of any act or failure to act, or as a result of failure to perform services, or negligence or misconduct in the performance of services, or violation of the provisions of this Agreement, by Franchisee or any of Franchisee's agents, employees, contractors, representatives, partners, officers, directors, and shareholders, except to the extent that such loss or damage directly result from the gross negligence or willful misconduct of the Franchisor.

## **XVI. TERMINATION**

### **A. Franchisor**

This Agreement may be terminated by Franchisor upon the default of the Franchisee. In no event will such termination relieve Franchisee from any of its obligations already incurred by this Agreement. A default is any of the following:

- i. Failure of Franchisee to perform its obligations pursuant to this Agreement or any breach by Franchisee of this Agreement or any other agreement between Franchisor and Franchisee, including without limitation payments under any promissory note issued hereunder.
- ii. One or more discontinuances of a customer pursuant to Section VII.B. of this Agreement.
- iii. Franchisee's insolvency, the adjudication of the Franchisee as bankrupt, the Franchisee's Franchised Business coming into possession or control, even temporarily, of any trustee in bankruptcy or appointed receiver, the making of a general assignment for the benefit of creditors or the inability of the Franchisee to pay its debts as they become due.
- iv. Franchisee's attempt to assign this Agreement, or any right or obligation hereunder, or make any transfer or assignment in violation of Section XIX.B hereunder without first securing Franchisor's written consent upon thirty (30) days written notice to Franchisor.
- v. Franchisee's abandonment of its Franchised Business.
- vi. Franchisee's use of abusive, violent, threatening, or harassing language or behavior toward clients or regional office staff and any behavior that is considered detrimental toward the Stratus brand.
- vii. Franchisee's conviction of a felony or of any other crime that impairs the goodwill associated with the Marks of Franchisor.
- viii. Franchisee theft from any account serviced.

If default results from an event described in subparagraphs i, ii, or iv of this Section XVI, termination shall occur ten (10) days following written notice of said default from Franchisor to Franchisee if Franchisee has failed to cure said default by then. If the default results from an event described in subparagraphs iii, v, vi, vii, or viii termination shall occur immediately without notice or opportunity to cure.

Upon expiration or termination of this Agreement for any reason (including without limitation Section XVI.B hereof), Franchisee shall immediately pay to Franchisor in full all amounts due thereunder through the date of termination, cease use of Franchisor's Mark and other property as provided in Section V.B of this Agreement, comply with Section VI.D hereof, and cease doing business as required by this Agreement. The termination of this Agreement will be without prejudice to any remedy or cause of action which Franchisor may have against Franchisee for the recovery of any monies due Franchisor or equipment or property of Franchisor, or any other right of Franchisor to recover damages for any breach hereof.

If Franchisee fails to comply with the provisions of this Section XVI or of Section V, Franchisor, may execute, in the Franchisee's name and on the Franchisee's behalf, any and all documents necessary to cause the discontinuance of Franchisee's use of the names and Marks granted Franchisee under this Agreement. Franchisee hereby irrevocably appoints Franchisor as Franchisee's attorney-in-fact to do so.

All of Franchisor's rights and entitlements under this Agreement survive its termination or expiration, and Franchisor does not waive or release any rights it has to enforce this Agreement by acknowledging or accepting such termination or expiration. The termination or expiration of this Agreement does not relieve the Franchisee from any of its obligations under this Agreement, whether incurred, discovered or vested before or after such termination or expiration. Similarly, Franchisee's obligations under this Agreement survive any termination or expiration of this Agreement.

#### B. Franchisee Termination

Franchisee may terminate this Agreement, upon written notice to Franchisor, if Franchisee is in compliance with the Franchise Agreement and Franchisor fails to substantially perform its material obligations pursuant to this Agreement after Franchisee has provided written notice to Franchisor of the nature of any alleged breach of such material obligations hereunder and provided Franchisor at least sixty (60) days to cure any such breach (or such longer period of time as necessary if such breach cannot reasonably be cured in such sixty-day period). Termination shall occur sixty (60) days following written notice of said default from Franchisee to Franchisor upon Franchisee's written notice of such termination to Franchisor, if Franchisor has failed to cure said default by then. Franchisee acknowledges and agrees that, in the event of any such termination, it shall not be entitled to any refund of any monies paid to Franchisor and shall not have any claim for money damages against Franchisor. Franchisee agrees to comply with all post-termination obligations, including but not limited to those post-termination obligations described in Section V.B, VI.D, XVI.A, and XVIII hereof.

Franchisee's termination of this Agreement for any other reason or without such notice will be deemed null and void.

C. Termination or Expiration of Master Franchise Agreement

Franchisee acknowledges and agrees that, on any termination for cause or expiration of the Master Franchise Agreement between Franchisor and SBS, SBS has the right, but not the obligation, to assume the rights and obligations of any or all unit franchise agreements. If the Master Franchise Agreement between Franchisor and SBS is terminated, for any reason, and SBS does not assume the rights or obligations under this Agreement or designate a new franchisor to be responsible for the Territory (with such franchisor assuming Franchisor's rights and obligations hereunder), this Agreement is subject to immediate termination, and neither Franchisor nor SBS will have any obligation or liability to Franchisee with respect to such termination, provided that Franchisor may elect to continue to service existing franchisees under outstanding agreements at its sole option.

**XVII. TERM**

This Agreement remains in full force and effect for a period of twelve (12) years from the date of execution unless sooner terminated as hereunder provided (the "Initial Term"). Upon the expiration of the Initial Term of this Agreement, Franchisee will have no further rights in the franchise or the Agreement unless Franchisor and Franchisee execute a written renewal agreement for a period of twelve (12) years (the "Extended Term"), which agreement will be on the same terms and conditions as Franchisor is then granting renewal of new franchises in the Territory, except that there will be no payment of any additional franchise fee or renewal fee for such Extended Term. The franchise will be renewed if Franchisee:

- i. Gives Franchisor written notice of intent to renew at least one hundred and eighty (180) but not less than 60 days prior to the date of expiration of the Initial Term or any Extended Term,
- ii. Executes the renewal Agreement at least thirty (30) days prior to date of expiration,
- iii. Is not in default of this Agreement on the date of giving notice, the date of execution of the renewal agreement, or the date of expiration of the Initial Term or any Extended Term, and
- iv. Updates all equipment and supplies to then-current system standards for new franchisees.

Whenever the word "term" is used in this Agreement, the word means the Initial Term, the Extended Term, or both, as the context requires. Upon termination, for any reason, of the Initial Term or the Extended Term, Franchisor will have no obligation to repurchase the franchise from Franchisee.

## **XVIII. NON COMPETITION**

During the term of this Agreement and for a period of two (2) years from the date of termination of this Agreement for any reason and within a 50 mile radius of the territory operated by the Franchisor or the territory of any affiliate thereof, Franchisee agrees that neither it, its affiliates nor any member of its immediate family will:

- i. divert, solicit, or attempt to divert or solicit, any business, customer or employee of Franchisor, Franchisee's Franchised Business, or any other franchisee of Franchisor, or
- ii. provide services to any business or customer, other than those approved by us, using the Marks or any Stratus trade dress, Stratus brand materials, supplies or other equipment used in the Stratus franchised business, or
- iii. perform any act injurious or prejudicial to the goodwill associated with the Marks.

Notwithstanding any other provision hereof, Franchisor and Franchisee agree, for purposes of promoting Franchisee's Additional Business Services, Franchisee shall have the right, during the term of this Agreement to solicit customers of the Franchised Business. Franchisee acknowledges that a violation of the terms of this Section would result in irreparable injury to Franchisor for which no adequate remedy at law may be available and Franchisee accordingly consents to the issuance of an injunction prohibiting any such conduct of Franchisee or other equitable remedies.

## **XIX. ASSIGNMENT**

### **A. Franchisor**

Franchisor may, without the consent of the Franchisee, assign Franchisor's rights and duties under this Agreement to another party, provided that the party to whom the rights and obligations are assigned, at the sole discretion of Franchisor, is capable of performing, and agrees in writing to perform the obligations and duties of the Franchisor.

### **B. Franchisee**

(i) This Agreement will inure to the benefit of the successors and assigns of Franchisee. The interests of Franchisee in this agreement are personal and may not be sold, assigned, transferred, shared or divided in any manner by Franchisee, and any ownership interest in the Franchisee may not be transferred, and no assets of the Franchisee relating to the franchised business may be sold or transferred, without the written consent of Franchisor, which consent will not be unreasonably withheld and be given or refused within thirty (30) days of receipt by the Franchisor of written notice of such proposed transfer.

(ii) Franchisee shall provide to Franchisor prior to the sale or transfer, a copy of any additional information which Franchisor may require in order to determine if it will grant its consent to the proposed sale or transfer, which consent may be withheld in Franchisor's sole discretion if the proposed transferee does not meet the qualifications then established by the Franchisor for new franchisees. In addition to the requirements of Section XIX.B.ii below, it is agreed that consent for sale, transfer or assignment will be granted only when all obligations of the Franchisee, including all debts of Franchisee, are paid at the time of the sale or transfer, the Franchisee pays a transfer fee to Franchisor equal to five percent (5%) of the yearly gross revenues of the account(s) being transferred/sold (with a minimum transfer fee of \$750), the buyer agrees to undergo the training required of a new Franchisee and the transferee agrees to execute a Unit Franchise Agreement of the type then being used by Franchisor, however, the new agreement with the transferee will have the same expiration date as the original franchise agreement and not require the transferee to make greater payments to the Franchisor than those required of the present Franchisee by this Agreement. If such conditions are fulfilled and the thirty (30) day notice period has passed, the consent of the Franchisor will be deemed to have been granted for the proposed transfer. There is no transfer fee if Franchisee transfers its franchise to an immediate family member or to a corporation or company which it wholly owns. Franchisor may withhold written consent in the event that Franchisee is in default under the terms of this Agreement or any other agreement with Franchisor until said default is cured.

(iii) If Franchisee's owners transfer or sell ten percent (10%) or more of the stock, if it is a corporation, or a ten percent (10%) or greater interest in the ownership of the Franchisee (except to immediate family members), then Franchisee agrees to pay Franchisor a transfer fee based on the sales price of such ownership interest. The sale price will be defined as monies received, monies to be received, stock, real estate or any other form of redeemable or hard assets received in consideration for the transfer or sale of the ownership interest in the Franchisee. This transfer fee shall be equal to ten percent (10%) of all amounts received from the sale. The transfer fee is due and payable upon the sale or transfer. Franchisee also agrees to provide, as a condition of Franchisor approving the sale or transfer, as a personal covenant to the purchaser, in addition to the covenant contained in this agreement, an agreement not to compete in the franchised cleaning and/or maintenance services industry, which would include any type of franchised cleaning and/or maintenance related services, including, but not limited to, commercial, industrial and institutional cleaning and/or maintenance services, as well as the sale, leasing or distribution of supplies and equipment related thereto, for a period of two (2) years after transfer or sale, nor to seek to divert business from Franchisor or its other franchisees for a period of one (1) year after the transfer or sale. Any transaction or series of transactions which would have the effect of transferring ten percent (10%) or more of the ownership of the Franchisee must be approved by Franchisor on the same basis as any other sale or transfer as set forth herein.

(iv) Prior to the transfer, the transferor Franchisee must also execute a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor, Franchisor's parent corporation and affiliated corporations, and the officers, directors, shareholders and employees of Franchisor and each parent and affiliate corporation in their corporate and individual capacities, including, without limitation, claims arising under this

Unit Franchise Agreement and federal, state and local laws, rules and ordinances.

C. Effect of the Death or Disability of an Owner

(i) Upon the death of any person with an ownership interest in Franchisee (the “Deceased”), the executor, administrator or other personal representative of the Deceased transfers such interest to a third party approved in writing by Franchisor within six (6) months after the death of the deceased. If no personal representative is designated or appointed by will or trust, or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest must be approved by Franchisor. If the distributee is not approved by Franchisor, then the distributee shall transfer such interest to a third party approved by Franchisor within six (6) months after the death of the Deceased. The exception would be the transfer to a spouse or immediate descendant of the Deceased, which would be deemed to be approved by Franchisor. However, any Managing Owner must be approved by the Franchisor whether or not such Managing Owner is a spouse or immediate descendant of the Deceased.

(ii) Upon the permanent disability of any person with an ownership interest in the Franchisee, Franchisor may, in its sole discretion, require such interest to be transferred to a third party approved by Franchisor within six (6) months after notice to Franchisee. “Permanent disability” means any physical, emotional or mental injury, illness or incapacity which would prevent a person from performing the obligations set forth in this Franchise Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability will be determined by a licensed practicing physician selected by Franchisor upon examination of the person; or, if the person refuses to submit to an examination, then such person will be automatically deemed permanently disabled as of the date of such refusal for the purpose of this Subsection.

(iii) In the event of the death or permanent disability of any person with an ownership interest in the Franchisee, Franchisor at its option may elect to operate the Franchised Business during the interim six (6) months following such death or the interim six (6) months following such permanent disability, as applicable, until the interest of the Franchisee is transferred in accordance with this Subsection or until the applicable interim period expires, whichever comes first. Franchisor shall account for all proceeds from the Franchisee less all costs of operation. As compensation for managing the Franchisee’s Franchised Business, Franchisor will charge a reasonable monthly management fee which will be in addition to the royalty fees, advertising fees and any other fees or payments due and owing to Franchisor. Franchisor shall utilize its best efforts in managing the Franchisee’s Franchised Business, but will not be liable for any losses incurred.

(iv) Upon the death or claim of permanent disability of any person with an ownership interest in Franchisee, Franchisee or a representative of Franchisee must promptly notify Franchisor in writing of such death or claim of permanent disability. Any transfer upon death or permanent disability will be subject to the same terms and condition as described in this Section, provided however, that in the event of the death or permanent disability of any

individual with an ownership interest in the Franchisee, no transfer fee will be imposed for a transfer to the spouse or direct descendent of that individual. Transfer fees will be imposed if the transfer is to a non-related third party. If an interest is not transferred upon death or permanent disability as required in this Subsection and in accordance with the terms and condition of this Section, Franchisor may terminate this Franchise Agreement.

## **XX. GUARANTEE**

Franchisee acknowledges that all partners, owners and shareholders of Franchisee are listed on the signature pages hereto and are obligated to execute this Agreement to guarantee the payment of all sums which may from time to time become due to the Franchisor under this Agreement and to agree to be bound by all of the terms, covenants and conditions of this Agreement hereof. Such partners, owners or shareholders also agree to execute any Promissory Notes and Personal Guarantees as requested by the Franchisor.

## **XXI. AMENDMENT**

This Agreement may not be modified, altered or amended except in writing, and executed by all the parties hereto. No failure to act by Franchisor will be considered a waiver or amendment to any provision of this Franchise Agreement.

## **XXII. CAPTIONS**

The captions used in this Agreement are inserted as a matter of convenience. The text of any Section of this Agreement controls its interpretation.

## **XXIII. SEVERABILITY**

If any provision hereof is found by a trier of fact, for any reason, to be illegal or unenforceable, then the validity of the remaining portions, terms, or provisions will not be affected; the illegal portion, term or provision will be deemed not to be part of this Agreement, and this Agreement will be construed as if such provision had never been part of the Agreement.

## **XXIV. SUCCESSORS**

This Agreement will bind, and inure to the benefit of the executor, personal representative, administrator, heirs, successors and assigns of each of the parties.

## **XXV. ENTIRE AGREEMENT**

This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter, and superseding all prior written or oral representations made to Franchisee or any of its principals, except the representations made in Franchisor's Franchise Disclosure Document.

Nothing contained in this Agreement or in any related agreement is intended to disclaim the representations Franchisor made in the Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions of the Agreement is binding upon either party unless and until the same has been made in writing and executed by all interested parties.

**XXVI. NOTICE**

Except as otherwise expressly provided herein, all written notices and reports permitted or required to be delivered by the parties pursuant hereto shall be deemed so delivered at the time delivered by hand or confirmed email, one (1) business day after transmission by facsimile, telegraph or other electronic system; three (3) days after deposit in the United States mail, via registered or certified mail, return receipt requested; or one (1) business day after placement with Federal Express, or other reputable air courier service, requesting delivery on the most expedited basis available, postage prepaid and addressed as follows:

**If to Franchisor:**

YOUR COMPANY NAME  
d/b/a Stratus Building Solutions of AREA  
ADDRESS  
CITY STATE ZIP  
Fax: \_\_\_\_\_ Email: \_\_\_\_\_stratusclean.com

**If notice is to be given to Franchisee, such notice shall be sent to:**

YOUR COMPANY NAME  
Attn: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
Fax: \_\_\_\_\_  
Email: \_\_\_\_\_

The address hereby given for the service of notice may be changed at any time by either party through written notice to be given to the other as provided herein and the manner in which notice required or permitted hereto may be changed at any time upon mutual written agreement.

## **XXVII. DISPUTE RESOLUTION**

### **A. Dispute Resolution by Mediation**

The parties have reached this Agreement in good faith and in the belief that it is mutually advantageous to them. In the same spirit of cooperation, Franchisor agrees to try to resolve any and all disputes, controversies or claims that may arise between them concerning or relating to this agreement, its performance, and the relationship between Franchisor and Franchisee first through mediation. Except as provided in Section VI.D and Section XVIII hereof or relating to controversies arising from the Marks, either party shall submit such controversy or claim to non-binding mediation before the American Arbitration Association, or other mutually agreeable mediator within twenty (20) days after such dispute, controversy or claim has arisen. Both parties shall execute a confidentiality agreement not to disclose the fact of mediation, its procedures, information discovered or results to anyone other than its professional advisors who shall also agree to maintain such confidentiality reasonably satisfactory to us. Upon submission, the obligation to attend mediation will be binding on both parties, and a condition of mediation is that it shall be held and concluded within thirty (30) days after it has been requested. Each party will bear its own attorney fees and costs with respect to the mediation, except the fees for the mediation will be split equally. Good faith participation in these procedures to the greatest extent reasonably possible, despite lack of cooperation by one or more of the other parties, is a precondition to maintaining any legal action to interpret or enforce this Agreement. No party shall initiate or participate in any class action litigation claim against any other party bound hereby.

### **B. Arbitration**

i. The parties hereto agree that, except for controversies, disputes, or claims related to or based on improper use of the Marks or in connection with Sections VI.D or XVIII, and except for otherwise mediation required in Section XXVII.A hereof, all controversies, disputes, or claims between Franchisee and Franchisor's affiliates, and Franchisor's and their respective members, officers, managers, agents, and/or employees, and Franchisee (and/or Franchisee's owners, managers, guarantors, affiliates, and/or employees) arising out of or related to:

1. this Agreement or any other agreement between Franchisee and Franchisor;
2. Franchisor's relationship with Franchisee;
3. the validity of this Agreement or any other agreement between Franchisee and Franchisor; or
4. any Stratus System Standard;

must be submitted for binding arbitration, on demand of either party, to the American Arbitration Association. The arbitration proceedings will be conducted

by one arbitrator and, except as this Subsection otherwise provides, according to the then current commercial arbitration rules of the American Arbitration Association. Any questions regarding the arbitrability of any claim is to be determined by the arbitrator and is binding upon the parties. All proceedings will be conducted at a suitable location chosen by the arbitrator in or nearest the city where Franchisor's principal business address is then located. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction.

ii. The arbitrator has the right to award or include in his or her award any relief which he or she deems proper, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief, and attorneys' fees and costs, provided that the arbitrator may not declare any Mark generic or otherwise invalid or, except as expressly provided in Subsection XVIII.G below, award any damages against either party.

iii. Franchisee and Franchisor agree that any such dispute, controversy or claim between Franchisor and Franchisee must be submitted to arbitration no later than one (1) year after it has arisen, and that if it is not so submitted, the parties shall both regard it as time-barred under law. Franchisor and Franchisee further agree that, in any arbitration proceeding, each must submit or file any claim which would

iv. constitute a compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any claim which is not submitted or filed as required is forever barred. The arbitrator may not consider any settlement discussions or offers that might have been made by either Franchisee or Franchisor.

v. Franchisor and Franchisee agree that arbitration will be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between Franchisor and Franchisor's affiliates, and Franchisor's and their respective members, officers, managers, agents, and/or employees, and Franchisee (and/or Franchisee's owners, managers, guarantors, affiliates, and/or employees) may not be consolidated with any other arbitration proceeding between Franchisor and any other person.

vi. Despite Franchisor and Franchisee's agreement to arbitrate, Franchisor and Franchisee each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction.

vii. The provisions of this Section XXVII are intended to benefit and bind certain third party non-signatories and will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination.

viii. Limitation of Parties. Franchisor, Franchisee and its principals may only seek damages or any remedy under law or equity for any claim against each other or their

successors, assigns or guarantors arising out of or relating to the Agreement or the relationships of the parties. Franchisor and Franchisee agree that affiliates, shareholders, members, directors, officers, employees, agents and representatives will not be personally liable or named as a party in any litigation proceeding arising out of or relating to this Agreement or the relationship among the parties.

C. Governing Law and Venue

This agreement and the franchise are governed by [STATE] law, except to the extent this agreement or any dispute is governed by the Lanham Act or other federal law. In the event of a dispute that cannot be resolved between any of the parties hereto or otherwise arising in connection with this Agreement or the franchise relationship created pursuant to this Agreement, exclusive venue for any action or legal proceeding shall be in the federal or state courts situated in the [STATE] county located closest to Franchisor's headquarters, and Franchisee (and its principals) hereby consents irrevocably to the exclusive jurisdiction of such courts.

D. Attorney's Fee and Costs

If Franchisor incurs legal fees or other expenses as a result of any breach by Franchisee of its obligations under this Agreement, then Franchisor will be entitled to recover from Franchisee the amount of all such legal fees and other expenses. Except as otherwise provided in this section, if either party is required to enforce this Agreement in a judicial or other legal proceeding, the party prevailing in such proceeding will be entitled to reimbursement of its costs and expenses, including reasonable accounting fees, expert witness fees and legal fees.

E. **WAIVER OF CERTAIN DAMAGES**

**THE PARTIES HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) AGAINST FRANCHISOR, ITS AFFILIATES, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, AGENTS, REPRESENTATIVES, INDEPENDENT CONTRACTORS, SERVANTS AND EMPLOYEES, IN THEIR CORPORATE AND INDIVIDUAL CAPACITIES, ARISING OUT OF ANY CAUSE WHATSOEVER. EACH OF FRANCHISEE AND PRINCIPALS, IF ANY, AGREE THAT IN THE EVENT OF A DISPUTE, FRANCHISEE AND EACH PRINCIPAL IS LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED.**

F. **LIMITATIONS OF CLAIMS**

**ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES WILL BE BARRED UNLESS A PROCEEDING FOR RELIEF IS COMMENCED WITHIN ONE**

**(1) YEAR FROM THE DATE ON WHICH THE PARTY ASSERTING SUCH CLAIM KNEW OR SHOULD HAVE KNOWN OF THE FACTS GIVING RISE TO SUCH CLAIMS.**

**G. WAIVER OF JURY TRIAL**

**IN THE EVENT ANY PARTY INITIATES LITIGATION FOR ANY CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES, INCLUDING THOSE THAT INCLUDE OTHER PARTIES OR CLAIMS, ALL PARTIES WAIVE THEIR RIGHT TO A TRIAL BY JURY. THIS WAIVER APPLIES TO ALL CAUSES OF ACTION THAT ARE OR MIGHT BE INCLUDED IN SUCH LITIGATION, INCLUDING BUT NOT LIMITED TO CLAIMS RELATED TO THE ENFORCEMENT OR INTERPRETATION OF THIS AGREEMENT, ALLEGATIONS OF STATE OR FEDERAL STATUTORY VIOLATIONS, FRAUD, MISREPRESENTATION, OR SIMILAR CAUSES OF ACTION, AND IN CONNECTION WITH ANY LEGAL ACTION INITIATED FOR THE RECOVERY OF DAMAGES BETWEEN FRANCHISEE AND PRINCIPALS AND FRANCHISOR.**

**H. Third Party Beneficiary.**

Franchisor and Franchisee agree that SBS Franchising, Inc. is a third party beneficiary of all Dispute Resolution provisions of this Section XXVII and any claims arising from the Franchise Agreement and relationship between the Franchisor and Franchisee against SBS Franchising, Inc. will be conducted in accordance with the terms of this Section XXVII.

- I. All provisions of this Section XXVII survive termination or expiration of this Agreement.**

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

YOUR COMPANY NAME. d/b/a  
Stratus Building Solutions of AREA

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

FRANCHISEE: YOUR COMPANY NAME                      SHAREHOLDERS, OWNERS OR PARTNERS

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

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Social Security Number or Federal

Employer Identification Number

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

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Social Security Number or Federal

Employer Identification Number

Name of Managing Owner: \_\_\_\_\_

**EXHIBIT J GENERAL RELEASE**

**GENERAL RELEASE**

This General Release is made effective this \_\_\_\_ day of \_\_\_\_\_, 20 . In consideration for the grant by SBS Franchising, Inc. (“SBS”), to the undersigned of certain rights in connection with the operation of a Stratus master franchise and/or the transfer or renewal thereof, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned, individually and collectively, hereby unconditionally release, discharge, and acquit SBS, its past and present subsidiaries and affiliates, and its and their shareholders, owners, directors, officers, managers, members, partners, employees, agents, representatives, successors and assigns, from any and all liabilities, damages, claims, demands, costs, expenses, debts, indemnities, suits, disputes, controversies, actions and causes of action of any kind whatsoever, whether known or unknown, fixed or contingent, regarding or arising out of any prior or existing franchise relationship, development agreement, franchise agreement or any other agreement executed by any of the undersigned and SBS (or any subsidiary or affiliate of SBS), any SBS franchise (whether currently or previously owned or operated by the undersigned or any of them), or any other prior or existing business relationship between any of the undersigned and SBS (or any subsidiary or affiliate of SBS), which the undersigned or any of them individually or collectively has asserted, may have asserted or could have asserted against SBS (or any of the aforementioned related parties) at any time up to the date of this General Release, including specifically, without limitation, claims arising from contract, written or oral communications, alleged misrepresentations, and acts of negligence, whether active or passive. This General Release will survive the assignment or termination of any of the franchise agreements or other documents entered into by and between SBS and any of the undersigned. This General Release is not intended as a waiver of those rights of the undersigned which cannot be waived under applicable state franchise laws nor is it intended to relieve SBS or any other person, directly or indirectly, from liability imposed by the Maryland Franchise Registration and Disclosure Law. This General Release will be governed by and construed in accordance with the laws of the State of California without regard to its conflicts of law provisions.

**WITNESS:** \_\_\_\_\_:

(Seal) By: Name: \_\_\_\_\_ Name: \_\_\_\_\_

Its: \_\_\_\_\_

(Seal) \_\_\_\_\_, Individually Name: \_\_\_\_\_ Name: \_\_\_\_\_

(Seal) \_\_\_\_\_, Individually Name: \_\_\_\_\_ Name: \_\_\_\_\_

**EXHIBIT K  
ITEM 23 – 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 SBS Franchising, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

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

Date of Issuance: April 1, 2017

The franchise seller(s) offering this franchise is/are checked off below:

\_\_\_\_\_ Afshin Cangarlu, 10530 Victory Blvd., North Hollywood, CA 91606, (888)-981-1555

\_\_\_\_\_

I have received a disclosure document dated April 1, 2017 that included the following Exhibits:

- |  |  |
|--|--|
| A. State Administrators                        | G. State Addenda to Master Franchise Agreement |
| B. Table of Contents of Operations Manuals     | H. State Addenda to Disclosure Document        |
| C. Financial Statements                        | I. Unit Franchise Agreement Form               |
| D. Master Franchise Agreement with Attachments | J. Form of General Release                     |
| E. Promissory Note                             | K. Receipt                                     |
| F. List of Master Franchisees                  |  |

Dated: \_\_\_\_\_  
(Do not leave blank)

**PROSPECTIVE MASTER FRANCHISEE:**

**If a business entity:**

Name of Business: \_\_\_\_\_

Signature: \_\_\_\_\_

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

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

**If an individual:**

Signature: \_\_\_\_\_

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

Please return the signed receipt by signing, dating, and mailing it to SBS Franchising, Inc. at 10530 Victory Blvd., North Hollywood, CA 91606.

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Name of Business: \_\_\_\_\_

**If an individual:**  
Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

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

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

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

Please keep a copy of this receipt for your files.