

The Business We Offer

The market for Organizers consists of homeowners and small businesses desiring to remodel closets, garages and other work spaces. The market is developing. Sales are not seasonal. The Franchise is a license for an initial term of 5 years (renewable for additional 5-year terms) permitting you to operate a location (“Location”) that offers Organizers under an assumed name containing service marks owned by CBDF. You may only use the Closets By Design service marks on the Internet as we specifically authorize in our confidential Operations Manual (the “Confidential Manual”), or otherwise in writing. All Closets By Design franchisees will compete with other closet and home organizer retail stores, chains and other closet, home/office organizer retailers offering products comparable to the Organizers.

Applicable Regulations

You may be required to have a validly issued state contractor’s license to operate a Closets By Design franchise in your state (please see Exhibit E to this disclosure document). We do not represent that you will have the ability to procure any required license, permit, certificate or other governmental authorization that may be necessary or required for you to carry out the activities contemplated by the Franchise Agreement.

In addition, the laws, rules and regulations which apply to businesses in general will affect you. ~~Consult your lawyer about them.~~

Prior Experience

CBDF does not do business under any other name. CBDF has not offered franchise agreements under a separate disclosure document. Our affiliated corporation, CBDI has directly operated Closets By Design businesses since 2001, at the following locations at 13151 South Western Avenue, Gardena, California; 1335 Park Center Drive, Vista, California; and 8383 Capwell Drive, Oakland, California. CBDF does not engage in business activities other than operating Closets By Design showrooms and selling and servicing Closets By Design franchises. Neither CBDF nor CBDI has offered franchises in other lines of business.

ITEM 2: BUSINESS EXPERIENCE

Chairman and CEO: Frank Melkonian.

Mr. Melkonian has been the Chairman and CEO of CBDF since 2007. He has also served as the Chairman and CEO of HOI, based in Whittier, California, since 2001 and as the Founder and CEO of CWI since 1991.

President and Director: Gerald “Jerry” Egner.

Mr. Egner was named President of CBDF in 2001. Also, he serves as a member of the Board of Directors of HOI (since August 2009).

Chief Financial Officer, Secretary, Treasurer and Director: Gerard A. Thompson.

Mr. Thompson joined CBDF as Chief Financial Officer, Secretary, Treasurer and Director in November 2005. He also serves as Senior Vice President, Chief Financial Officer and Director of HOI, and Chief Financial Officer, Secretary and Treasurer for CWI and all other wholly-owned subsidiaries of HOI (since November 2005).

Director of Franchise Development: Michael J. Waterski

Mr. Waterski joined CBDF as its Director of Franchise Development in May 2024. Prior to joining CBDF, Mr. Waterski was unemployed in Hallandale Beach, Florida from September 2023 to April 2024. Before that, Mr. Waterski served as Vice President of Franchise

rarely happens, your Territory may contain fewer than 100,000 households or more than 350,000 households.

If you are purchasing an unoccupied developed market area, you may be required to pay a Market Development Fee in addition to the Initial Franchise Fee and Territory Fee. The Market Development Fee will vary drastically based on, among other things, (i) the size of the market area and (ii) the extent of development of the subject market area. The amount of the Market Development Fee and the terms upon which the Market Development Fee is payable will be individually negotiated. CBDF may (on a case-by-case basis) permit you to finance a portion of the Market Development Fee at a compound interest rate equal to the greater of: (i) 9.50% or (ii) 3 points (3.0%) above the prime rate of interest identified by Citibank, N.A. in New York City (or any successor to it) on the first day of each month that an amount is past due. Last year (i.e., 2024), we imposed Market Development Fees ranging from \$0 - \$20,000. However, the Market Development Fee that you and we negotiate may exceed the amount we charged last year.

(2) There is no separate fee for the Closets By Design training program for your General Manager. The costs for the initial training program are a part of the Initial Franchise Fee but you must pay all travel and lodging expenses of trainees. Additional trainees pay CBDF up to \$1,000 per person per day for training.

(3) It is your responsibility to lease, maintain, furnish, decorate and equip your Location. You must have a showroom at your Location and at other sites in your territory as reasonably determined by CBDF.

(4) You will be required to purchase or lease a vehicle to transport the tools, equipment, supplies and materials that you may need for closet installations. We suggest the Ford Transit Van-E250 (with 148" wheelbase/hightop) or a Dodge Sprinter 2,500 Cargo Van. However, you are free to choose whatever vehicle you deem appropriate for installations and whether you will purchase or lease said vehicle.

(5) CBDF requires you to carry appropriate workers' compensation insurance in the minimum limits prescribed by law and comprehensive general liability coverage of at least \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a reputable insurer. You must provide CBDF with evidence of insurance and name CBDF as an additional insured under your liability policy. You must also carry Fire and Extended Coverage Insurance on your Closets By Design location, Business Interruption Insurance and motor vehicle liability coverage (see section 9.1 A. of the Franchise Agreement).

(6) Although CBDF does not require minimum funds for you to start your business, there are some expenses you will incur when you begin your franchise operations, such as inventory, supplies and employees' salaries. It is always a good idea to have some cash reserves available to cover initial operating expenses.

(7) This estimates your initial start-up expenses. CBDF relied on over 40 years of experience of our President in the space organizing business and our 25 years of experience in the closet organization franchising business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We ~~strongly~~ recommend that you use these categories and estimates as a guide to develop your own business plan and budget and investigate specific costs in your area.

Notes:

(1) “Annual Sales” means the grand total of all contracts sold for the reported fiscal year, exclusive of any documented refunds, chargebacks, credits and allowances that are given in good faith to customers; and, all sales, use or similar taxes that are legally charged to customers (if such taxes were added, the taxes charged to the customers).

(2) The closing ratio percentage is the ratio of (x) the number of sales to different customers to (y) the number of different potential customers seen (with any potential customer seen more than once being counted as only one potential customer), expressed as a percentage.

(3) “Sale” refers to the total contract price exclusive of documented refunds, chargebacks, credits and allowances that are given in good faith to customers; and, all sales, use or similar taxes that are legally charged to customers (if such taxes were added the taxes charged to the customers).

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

CBDF does not furnish or authorize any of its officers, employees or salespersons to furnish any oral or written economic projections for any franchised Closets By Design Business.

CBDF will make written substantiation of the data used in preparing the information above available to you upon reasonable request. The information was furnished to CBDF by its franchisees, ~~who did not audit it. It is important to note that CBDF itself has not audited or otherwise independently verified the information furnished to CBDF by its franchisees~~ This financial representation was prepared without an audit.

Other than the preceding financial performance representation, CBDF does not make any financial performance representations. If you are purchasing an existing Outlet, however, we may provide you with the actual records of that Outlet. If you receive any other financial performance information or projections of our future income, you should report it to the franchisor’s management by contacting our President, Mr. Gerald “Jerry” Egner, whose address is 13272 Garden Grove Blvd., Garden Grove, California 92843 and telephone number is (714) 890-5860; the Federal Trade Commission; and the appropriate state regulatory agencies.

ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

System-wide Outlet Summary for Years 2022 to 2024

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2022	65	66	+1
	2023	66	76	+10
	2024	76	79	+3
Owned By CBDI and CBDF	2022	7	6	-1
	2023	6	6	0
	2024	6	6	0
Total Locations	2022	72	72	0
	2023	72	82	+10
	2024	82	85	+3

As of December 31, 2024, CBDF also had five (5) franchised Outlets operating in Canada.

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 CBD 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.

New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If CBD 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580.

We have no franchise brokers. The names, address and telephone number of the franchise sellers for this offering are: Jerry Egner, ~~Ron Lichwala~~, Michael J. Watorski, _____ 13272 Garden Grove Boulevard, Garden Grove, California 92843; (714) 890-5860.

Date of Issuance: April 21, 2025.

CBD Franchising, Inc. authorizes the person identified in Exhibit F to receive service of process for it in your state. I received a disclosure document dated April 21, 2025, that included the following Exhibits:

- "A" Franchise Agreement
- "B" Financial Statements
- "C" List of Franchise Outlets
- "D" List of Terminated Franchises
- "E" Industry Specific Licenses Required
- "F" State Franchise Administrators and Agents for Service of Process
- "G" Confidential Operations Manual Table of Contents
- "H" Asset Purchase Agreement
- "I" Promissory Note
- "J" Wells Fargo Enrollment Agreement
- "K" Statement of Franchisee
- "L" Multi-State Addenda to Franchise Agreement and Franchise Disclosure Schedule
- "M" State Effective Dates Page
- "N" Receipts

Dated: _____
(Do not leave blank)

If a corporation or other business entity:

If an individual:

(Name of Business Entity)

(Signature of Prospective Franchisee)

(Signature of Primary Contact Owner)

(Print Name)

(Print Name and Title)

Please date and sign this page, and then keep it for your records

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(Name of Business Entity)

(Signature of Primary Contact Owner)

(Print Name and Title)

If an individual:

(Signature of Prospective Franchisee)

(Print Name)

Please date and sign this page, and then return it to CBD Franchising, Inc., either by email to cbdfanchising@closetsbydesign.com, or by mail to 13272 Garden Grove Boulevard, Garden Grove, California 92843-2205.